SESSION 1934

HOUSE OF COMMONS

Vol II

May 3, 1934

Special Committee

On

Price Spreads and Mass Buying

PROCEEDINGS AND EVIDENCE

OTTAWA
J. O. PATENAUDE
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1934

MINUTES OF EVIDENCE

House of Commons, Room 368,

Thursday, May 3, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 o'clock a.m., Hon. H. H. Stevens presiding.

Mr. Norman Sommerville, K.C., of Toronto and Mr. W. W. Parry, K.C., of Toronto, appeared as counsel for the committee.

The Chairman: Order, gentlemen. The minutes contain the usual record of the witnesses heard and the number of exhibits filed. There are no other matters of importance in them, so I will declare them approved.

A request was made yesterday for the filing of certain petitions that have been forwarded to the House of Commons, and the clerk of petitions will now file them.

Mr. J. P. Doyle, clerk of petitions appeared before the Committee and filed,—

List of Petitions Protesting Against the Imposition of an Excise Tax on Leaf Tobacco

Session 1934

Petition No. — From

15. J. R. A. St. Martin and 508 other farmers and tobacco growers of the counties of Joliette, L'Assomption, Montcalm and Berthier.
30. Joseph Labreche and 456 other tobacco growers of the district of Joliette, Quebec.
31. Emile Archambault and 29 other tobacco growers of Ste. Mélanie, Quebec.
32. Leonide Desrocher and 289 other tobacco growers of St. Thomas de Joliette, Quebec.
33. Alphonse Cloutier and 5 other tobacco growers of St. Cléophas de Brandon, Quebec.
34. E. Forest and 254 other tobacco growers of St. Ambroise, Quebec.
35. E. Filiatrault and 54 other tobacco growers of Ste. Marcelline, Quebec.
37. Joseph Martel and 136 other tobacco growers of Ste. Marie-Salomé, district of Joliette, Quebec.
62. Donora Charron and 4,240 other tobacco merchants, of Montreal, Quebec.
67. J. A. Lamarche and 815 other tobacco consumers of Quebec, Quebec.

The Chairman: Attached to that are certain resolutions of protest against the imposition of an excise tax on leaf tobacco. I think these all come from the province of Quebec. The list will be included in the minutes, and the petitions will be here with the committee.

86332—95½

List of Resolutions of Protest Against the Imposition of an Excise Tax on Leaf Tobacco

session 1934

Municipalités de Saint-Zénon, compté de Berthier, Que.; Saint-Pierre Baptiste, Que.; Saint-Valier, comté de Bellechasse, Que.; Beaumont, comté de Bellechasse, Que.; Saint-Michel, comté de Bellechasse, Que.; Saint-Damien de Buckland, comté de Bellechasse, Que.; Saint-Joachim, comté de L'Assomption, Que.; Saint-Lin, comté de L'Assomption, Que.; Saint-Henri de Mascouche, Que.; Saint-Sabine, comté de Bellechasse, Que.; Saint-Nérie, Que.; Saint-Jean Chrysostôme, comté de Lévis, Que.; Saint-Modiste, comté de Témiscouata, Que.; Saint-Louis du Ha Ha, comté de Témiscouata, Que.; Saint-Méthade d'Adshack, Que.; Saint-Anasthase de Nelson, comté de Mégantic, Que.; Plessisville, comté de Mégantic, Que.; Canton du Bouchette, comté de Wright, Que.; Crabtree-Mills, district of Joliette, Que.; Saint-Gérard Majella, Que.; Paroisse L'Assomption, Que.; Village de Saint-Jacques, comté de Montcalm, Que.; Lachenaie, Que.; la ville de L'Assomption, Que.; Marie Salomé, Que.; L'Epiphanie, Que.; Repentigny, Que.; Saint-Henri de Mascouche, comté de L'Assomption, Que.; Saint-Alexis, comté de Montcalm, Que. 111 Tobacco Merchants of Montreal, Que.; 38 Tobacco Merchants of Montreal, Que.; 490 Tobacco Growers of Saint-Jacques, Que.; 384 Tobacco Growers of Saint-Henri de Mascouche, Que.; 252 Tobacco Growers of Saint-Alexis and Sainte-Julienne, Que.; 226 Tobacco Growers of Saint-Esprit, Que.

Before we call the witness for to-day, I might make a very brief statement. I shall only make this statement in an exceedingly brief manner because I have not had an opportunity to discuss with the committee two letters that I have here. At our last meeting, when the tobacco matter was under review, I think the committee was impressed with the desirability of achieving some understanding between the parties affected, if possible, with the one hope that it might materially help those who, at present or in the last year or two, have been suffering from the very low price of raw leaf tobacco. I wish to say that in so far as the Imperial Tobacco Company is concerned, the Rock City Tobacco Company, and the growers as represented by the witnesses of the previous meetings, these gentlemen got together and apparently did make a considerable effort to come to an understanding. There is, however, one notable exception in the matter which I think I should mention. The Macdonald Tobacco Company, I am informed, refused to participate in any effort at arriving at an understanding, and would not attend the conferences. I have before me a letter from Mr. Miller of the Imperial Tobacco Company and also one from Mr. Picard of the Rock City Tobacco Company, indicating certain views—I can't describe them as much more than that—and also outlining what attempts were made to arrive at an understanding. In neither case does it indicate that a complete or satisfactory arrangement was achieved. I will submit these documents to the committee for later consideration. But I would like to say this to the committee, if I might, and to the witnesses that are now about to be heard: the effort that was made indicates to me quite clearly that it is not beyond the realm of possibility for these varying interests to get together, if there was perhaps some assistance given them by government authority. But we have no authority at the present time, that I know of, that we could exercise to that end. If the committee could keep that thought in mind, it is possible that as we proceed with the examination,—which we shall now proceed with—information might be secured, and light might be brought to bear on the subject, which will help us, when we are framing our report, to make suggestions that would be beneficial to all concerned. In the meantime these letters will be held and discussed later with the committee at an executive meeting.

Who is the witness?

Mr. Young: Just a minute; if they have a plan, a get-together plan that would be submitted at some meeting, maybe they will be away by that time. This plan might not be acceptable to us.

The Chairman: Mr. Young, as I have regretfully intimated, there is no plan upon which there is agreement.

Mr. Factor: It is just a résumé.

The Chairman: Just a résumé of what has happened. I think it would be preferable if we did not discuss it now, but discussed it later in an executive meeting.

Mr. Senn: Mr. Chairman, have you no report from the growers' representatives about the matter?

The Chairman: No, I have no report here. There was no written report.

Mr. Scythes: There is no written report, but Prof. Leitch is prepared to make a statement.

The Chairman: Does the committee wish to hear Prof. Leitch make a statement?

Mr. Factor: Well, I suppose if Prof. Leitch makes a statement, the other people would want to.

The Chairman: If the committee do not agree with me they can intimate their views, but I would suggest that Prof. Leitch make a written statement and submit that to me so we can have that for consideration. Does that meet with the approval of the committee?

Mr. Factor: Yes.

The Chairman: We will ask Prof. Leitch to do that.

Mr. Factor: Is there any other help we can extend to the parties here to arrive at something?

The Chairman: I don't know of any, unless we were to suspend operations, shall I say. I don't know that there is anything we can do.

By the way, I would like to ask, before we proceed, whether the Macdonald Tobacco Company is represented here to-day.

A Voice: Yes.

The Chairman: Your name is what?

A Voice: Stewart.

The Chairman: Thank you very much.

Mr. Sommerville: Just before opening, may I ask if the Canadian Leaf Tobacco Company is represented here to-day by any person. Apparently not.

Mr. Factor: Who is the Canadian Leaf? Are they an independent company?

Mr. Sommerville: No. It is one of the companies that does a large amount of buying. It is a branch of the Universal Leaf Tobacco Company of the United States. We would ask them to submit their statement of purchases.

May I file with the committee a statement from the Dominion Bureau of Statistics on the price index numbers and actual prices of tobacco from 1926 to 1933, showing the prices obtained for the various varieties of tobacco in Canada for the years 1932 and 1933, with a summary for 1926 to 1933, and also the retail prices of cigarettes—certain cigarettes therein named—showing that the prices of tobaccos had decreased, for the raw tobacco leaf, from the index number of 100 in 1926 to 41·1 in 1933, while the index of retail prices of tobacco and cigarettes had decreased from 100 in 1926 to 89·6 in 1933. In other words, there was a decrease in the price of the raw material of 59 points in that period, and a decrease in the retail price of 11 points. That will be Exhibit No. 121.

The CHAIRMAN: Would the committee like to have this statement printed in the evidence? It is a rather comprehensive, basic schedule. We could get copies made for the committee, or would you prefer to have it printed.

Mr. SENN: I believe it would be well to have it printed, if it gives comparative prices to consumers and producers.

Mr. SOMMERVILLE: It does.

The CHAIRMAN: It is a very comprehensive schedule. We will have it inserted in the evidence.

DOMINION BUREAU OF STATISTICS

PRICE INDEX NUMBERS AND ACTUAL PRICES OF TOBACCO, 1926-1933

Index Numbers, 1926-1933.—Price index numbers of Ontario Burley and Virginia tobacco shown in the attached table indicate that a sharp decline occurred in basic tobacco prices between the years 1930 and 1933, and that more moderate declines had occurred in the two years preceding 1930. The indexes mentioned above were, in 1933 between 55 p.c, and 60 p.c. lower than in 1926. Manufactured tobacco prices, however, have registered much smaller recessions. Cigarettes in 1933 sold at from 80 p.c. to 90 p.c. of 1926 levels, while smoking and chewing descriptions shown, have not changed materially in the past eight years.

Prices 1932-1933.—The spread between prices of unmanufactured and manufactured tobacco is considerable as may be gathered from tabulated Burley and virginia prices which centred around 10 cents per pound in 1932 and 1933, while smoking and chewing tobaccos of popular descriptions at wholesale ranged from $1 to $1.50 per pound. The spread between wholesale and retail quotations of tobacco and cigarettes at present centres around 15 p.c.

PRICES OF TOBACCO AND CIGARETTES, 1932-1933

—	Burley Ontario Barn run Price to Tobacco Co. per lb.	Virginia Tobacco Fillers Price to Tobacco Co. per lb.	Wholesale Price Plug Chewing Stag per lb.	Retail Price Chewing Stag per lb.	Wholesale Price Cigarettes Players F.C. per 1,000	Retail Price Players Cigarettes (1) per 1,000	Wholesale Price Cigarettes Virginia Turretts per 1,000	Retail Price Cigarettes Virginia Turretts (1) per 1,000
	$	$	$	$	$	$		$
1932								
January	0·110	0·100	1·00	1·125	14·64	17·00		12·00
February	·110	·100	1·00	1·125	14·64	17·00		12·00
March	·110	·100	1·00	1·125	14·64	17·00		12·00
April	·110	·100	1·02	1·125	14·93	17·00		12·00
May	·110	·100	1·02	1·125	14·93	17·00		12·00
June	·110	·100	1·02	1·125	14·93	17·00	No	12·00
July	·110	·100	1·02	1·125	14·93	17·00		12·00
August	·110	·100	1·02	1·125	14·93	17·00	Record	12·00
September	·110	·100	1·02	1·125	14·93	17·00		12·00
October	·110	·100	1·02	1·125	14·93	17·00		12·00
November	·110	·100	1·03	1·125	12·24	14·00		10·00
December	·110	·100	1·03	1·125	12·24	14·00		10·00
1933								
January	0·110	0·100	1·03	1·125	12·24	14·00	8·85	10·00
February	·110	·100	1·03	1·125	12·24	14·00	8·85	10·00
March	·090	·100	1·03	1·125	12·24	14·00	8·85	10 00
April	·090	·100	1·03	1·125	12·24	14·00	8·85	10·00
May	·090	·100	1·03	1·125	12·24	14·00	8·85	10·00
June	·090	·100	1·03	1·125	12·24	14·00	8·85	10·00
July	·090	·100	1·03	1·125	12·24	14·00	8·85	10·00
August	·090	·100	1·03	1·125	12·24	14·00	8·85	10·00
September	·090	·100	1·03	1·125	12·24	14·00	8·85	10·00
October	·090	·100	1·03	1·125	12·24	14·00	8·85	10·00
November	·090	·120	1·03	1·125	12·24	14·00	8·85	10·00
December	·090	·120	1·03	1·125	12·24	14·00	8·85	10·00
1932 Average	·110	·100	1·017	1·125	14·409	16·50	....	11·667
1933 Average	·0933	·1017	1·03	1·125	12·24	14·00	8·85	10·00

—	Annual Indexes of Prices of Tobacco and Cigarettes, 1926–1933 (1926=100)							Annual Indexes of Retail Prices of Tobacco, Cigarettes etc. (1926=100)
1926	100·0	100·0	100·0	....	100·0	....	....	100·0
1927	114·5	94·5	100·0	....	100·0	....	....	100·0
1928	85·0	79·4	100·0	....	100·0	....	....	100·0
1929	78·5	79·4	100·0	....	98·7	....	....	98·5
1930	95·4	74·4	100·0	....	98·0	....	....	98·5
1931	78·5	51·5	100·0	....	98·0	....	....	97·7
1932	48·5	42·9	101·7	....	96·4	....	....	90·1
1933	41·1	43·6	103·0	....	81·9	....	....	89·6

(1) Price of 100 cigarettes at retail multiplied by 10.

Perhaps I should also report this to the committee. One of the witnesses gave evidence to the effect that it would be helpful to the growers if statistics were available of the stocks in the hands of the processers or manufacturers at various times in the year, particularly during that period when they were making preparations for the next year's crop. The matter was taken up by the clerk of the committee with Mr. Coats, the chief statistician, and he in part states as follows:

> The Tobacco Division of the Dominion Department of Agriculture and the Agricultural Branch of the Dominion Bureau of Statistics co-operate in the issuance of an annual report on the tobacco crop, with details as to acreages, production, prices to producers, imports and exports, and stocks in bonded warehouses, but there are no statistics extent of stocks in the hands of manufacturers.

That is the statement. So that we have no government statistics on that point. It is a matter that the committee may keep in mind, and perhaps the counsel will query the companies as they come here, in regard to the matter.

All right, Mr. Sommerville.

Mr. SOMMERVILLE: I will call on Mr. Miller, president of the Imperial Tobacco Company.

GRAY MILLER, called and sworn.

The WITNESS: Mr. Chairman, I would like to say that Mr. H. P. Buell, one of our vice-presidents in charge of our leaf is here; also Mr. F. P. L. Lane, the secretary; Mr. T. L. Lea of our leaf department and Mr. A. V. Calder. If you would allow it, I would like to have Mr. Lane help me in the reading of the brief, and Mr. Buell to answer questions. I thought may be you would like to have them sworn in, probably at the same time.

Mr. SOMMERVILLE: I would really prefer to examine them separately. If you require information, you may get it from time to time from them.

The CHAIRMAN: Mr. Miller may consult with the experts from time to time.

Mr. SOMMERVILLE: Oh, yes.

The WITNESS: We have a number of copies of the brief. They can be distributed to the members of the committee.

The CHAIRMAN: This is a rather ostentatious looking brief.

The WITNESS: Well, it is a rather big subject, Mr. Chairman.

By the Chairman:

Q. We have had, as you know, Mr. Miller—I think you were present—representatives of the growers before us, who have given certain evidence?—A. Yes.

Q. They have presented to the committee a certain picture. The counsel of the committee is desirous—in order to proceed in an orderly manner, and before going into any complicated matters that might arise out of this brief—of securing certain information of a major character which has already been referred to and which, in his opinion, affects the general set up of the tobacco industry, and upon which we desire specific information. So we will proceed with that first, and then we will go into the question of the brief, and anything that the Imperial Tobacco Company may wish to say.—A. All right.

By Mr. Sommerville:

Q. Mr. Miller, you are president of the Imperial Tobacco Company?—A. Yes.

Q. The Imperial Tobacco Company, in its present form, was incorporated, I understand, in 1912?—A. I think so. All the particulars are in here. You have it.

Q. That company, in its present form, acquired a previous company?—A. Yes.

Q. By the same name?—A. Yes.

Q. That previous company was made up of constituent parts?—A. I could not tell you without referring to this memorandum. I have given you par-

ticulars in that letter, I think. It is quite a complicated affair. It is all covered by this brief and the letter. I think, Mr. Sommerville, that really we have tried to anticipate anything that might be of interest to this committee in your investigation, and I would like to suggest that I think you will find all of that covered, if you would only let us proceed.

By Mr. Factor:

Q. You have not got an index to this brief?—A. No, we have not had an opportunity to index it. I think we would cover the whole thing, Mr. Sommerville. I am not trying to dictate at all, but I feel that it would be covered if you would let us proceed.

By the Chairman:

Q. Could you not put your finger on the answer to this question in your brief? I have just been skimming through it, and frankly I don't see any way I could put my hand on it?—A. In your letter there, Mr. Sommerville, I think you will find all that you asked in that question.

Q. There does not seem to be any index?—A. No, I am sorry to say there is not. I had hoped to have that. If you would let us proceed with this brief—

By Mr. Sommerville:

Q. The letter does give some information that will be helpful in answer to that. You say in reference to the inquiry as regards capital structure, the American Tobacco Company of Canada Limited was the original company which later grew into the Imperial Tobacco Company?—A. Not the original company. D. Ritchie and several other smaller companies is my recollection. I don't know how far back you want to go.

Q. At any rate, in September, 1895, the American Tobacco Company was incorporated.

The CHAIRMAN: That is far enough back.

Mr. EDWARDS: Page 73.

The WITNESS: Yes, capital structure, page 73.

By Mr. Sommerville:

Q. The American Tobacco Company was incorporated on September 7, 1895, with an authorized capital of one million dollars?—A. Yes.

Q. All of which was subscribed and fully paid for in cash?—A. Yes.

Q. That consisted of 10,000 shares of the par value of $100 each?—A. Yes.

Q. That was the capital that was put into the company at that time?—A. Yes.

Q. With that capital there were taken over certain companies that were in existence at that particular time?—A. Yes.

Q. Then that company acquired from the American Tobacco Company of New Jersey certain Canadian rights?—A. Yes.

Q. And it acquired the business of D. Ritchie & Company?—A. Yes.

Q. And of the American Cigarette Company?—A. Yes.

Q. Then the next change in the capital structure occurred on December 18, 1898?

The CHAIRMAN: 1908.

The WITNESS: Yes, 1908.

By Mr. Sommerville:

Q. All right, in 1908. Then the first Imperial Tobacco Company of Canada, Limited, was incorporated on June 11, 1908?—A. Yes.

Q. With an authorized capital of eleven million dollars, is that right?—A. Yes.

Q. Which was divided into 1,027,397-26/100 preference shares at £1?—A. $4.86-2/3.

Q. $4.86-2/3 each?—A. Yes.

Q. And 60,000 ordinary shares of the par value of $100 each?—A. Yes.

By Mr. Factor:

Q. How much of that is paid up?—A. It proceeds with the explanation here. It follows right on.

By Mr. Sommerville:

Q. That was the first Imperial Tobacco Company?—A. Yes.

Q. On the incorporation of that company, in July, 1908, it took over the business of the existing American Tobacco Company of Canada, Limited?—A. Yes.

Q. And the company known as the Empire Tobacco Company Limited?—A. Yes.

Q. Which latter company was incorporated in 1898?—A. Yes, and certain shares of The B. Houde Company Limited.

Q. It took over at that time certain shares of The B. Houde Company Limited?—A. Yes.

By Mr. Factor:

Q. A majority of the stock?—A. Yes.

By Mr. Sommerville:

Q. The majority of the stock of The B. Houde Company Limited?—A. Yes.

Q. The Imperial Tobacco Company then paid 711,504 preference shares of £1 each?—A. Yes.

Q. At a value of $3,462,651.05?—A. Yes.

Q. And 54,005 ordinary shares of the par value of $100 each, amounting to $5,400,500, for the assets which it then took over?—A. Yes, that is right.

Q. Is that correct?—A. Yes, that is correct.

Mr. Factor: Just read on there, starting with "In other words."

Mr. Sommerville (Reading): In other words, the Imperial Tobacco Company received tangible assets to the value of $3,251,970.67, shares of The B. Houde Company Limited, National Snuff Company Limited and the Joliette Tobacco Company Limited, all valued at $396,379.42, and goodwill, trade marks, etc. valued at $5,214,800.96.

The Witness: Yes.

By Mr. Sommerville:

Q. That is a statement of the position?—A. Yes.

Q. Was there any cash put into the company at that time?—A. Page 74: In October, 1908, there were subscribed for and fully paid in cash 110,414 preference shares amounting to $537,348.13.

Q. That is in October of that year?—A. Yes.

Q. The cash put in amounted to $537,348.13?—A. Yes.

Q. And that was for 110,414 preference shares?—A. Yes.

Q. That is in 1908?—A. Yes.

Q. What was the par value of those shares?—A. $4.86\frac{2}{3}$ or £1.

By Mr. Factor:

Q. Those are preference shares?—A. Yes.

Q. What do you mean by tangible assets valued at $3,251,970.67; is that stock in trade and buildings?—A. Yes, stock; everything except intangible assets.

Q. Everything but goodwill and trade marks?—A. Everything but the shares and goodwill.

By Mr. Sommerville:

Q. Were these assets not owned or controlled by the company which was in existence at that time, namely the American Tobacco Company?—A. The Empire Bond was not; I don't think B. Houde was; I do not think they could have been sir, it does not seem—we would have to investigate that sir and let you know.

Q. Is it not a fact that between 1895 and 1908 there was given to the shareholders of the American Tobacco Company as a bonus 40,000 shares of that company?—A. I do not think so, sir.

Q. Then, in 1895, or between 1895 and 1908 was there not a bonus then given to the shareholders?—A. No.

Q. Of the American Tobacco Company?—A. No.

Q. And the 10,000 shares originally issued in 1895 remained still the 10,000 share that were issued and outstanding in 1908, when the American Tobacco Company was taken over by the Imperial Tobacco Company?—A. Yes.

Q. That is the correct position?—A. Yes.

Q. And then, at that rate, what was the exact position in 1908, after the incorporation of the Imperial Tobacco Company, and the acquisition of these various companies, what was the outstanding capital?—A. The total outstanding capital?

Q. The share-capital?—A. Let me understand your question again?

Q. I want to know then what was the outstanding share capital of the Imperial Tobacco Company when it had completed the acquisition of the subsidiary companies in 1908?—A. That would be 711,504 preference shares, one pound each; value $3,462,651.05: and 54,005 shares of ordinary stock at a par value of $100, making $5,400,500.

Q. Amounting to—that is to say, there would be a total outstanding capital of $8,863,151.05?—A. Yes, sir.

Q. That would be the total outstanding in 1908?—A. Yes.

Q. And at that time no additional cash had been put into the Imperial Tobacco Company. These shares were issued in part for certain assets that were taken over, no additional cash was put in?—A. Not to my knowledge.

The CHAIRMAN: Except what he has already stated, in October.

By Mr. Sommerville:

Q. I am not talking about October: immediately afterwards?—A. Immediately afterwards.

Q. When you completed the acquisition of these various companies taken over by the Imperial Tobacco Company, no additional cash was put in?—A. That is right.

Q. But the original cash of $1,000,000 as it is given in 1895?—A. Excuse me a second, that is very complicated old history.

Q. Yes.—A. Page 73 there gives the full history of it. I do not see any reference—I do not think there was any cash, sir. That is a fair answer to your question. I am not trying to evade—it is quite difficult.

Q. We are trying to get the history in simple form?—A. Right.

Q. In other words, in 1908 you paid for the assets taken over by the issue of shares?—A. Yes.

Q. In a company that had been incorporated for the purpose of taking these assets?—A. Yes.

Q. So that the shares issued by that company represented the assets that were taken over from the previous company?—A. Yes.

Q. And then, following that, the sum of $537,348.13 was subscribed in October, 1908?—A. Yes.

Q. And that was paid in to the treasury of the Imperial Tobacco Company in cash?—A. Yes, sir.

Q. Then you have an addition of that amount of cash?—A. Yes.

Q. And these were, at that time, one hundred common shares; preferential shares at $5?—A. No, sir, $4.86⅔.

Q. One pound shares?—A. Yes.

Q. Then, what was the next step in your capital structure?—A. The present company, the Imperial Tobacco Company of Canada Limited, incorporated in 1912, now has an authorized capital of $63,733,309, which is divided into 1,999,995 cumulative 6 per cent preference shares of one pound each—$4.86⅔—having a total par value of $9,733,309; together with 10,800,000 ordinary shares of a par value of $5 each, with a total par value of $54,000,000. At the present date the paid-up capital of the company consists of $8,030,000 preference shares and $47,255,160 ordinary shares, making a total of $55,285,160.

Q. At this point, no stocks have been issued for preference shares, and common shares were not sold for cash?—A. Up to that time, no.

Q. But what change took place immediately following the reorganization of 1908?—A. 1908?

Q. Yes. Were there any bonus shares then issued, common shares, between then and 1912?—A. There were no bonus shares issued, but the $100 shares were split into $5 no par value shares; the same total par value.

Q. That is to say, the common shares which had been given for the assets in 1908 amounting to 54,005 ordinary shares at a par value of $100 each?—A. That is right.

Q. And that represented a total value of $5,400,500?—A. Yes, sir.

Mr. Factor: Where do you get this 54,000?

Mr. Sommerville: On page 74.

By Mr. Sommerville:

Q. Were any of these 54,000 ordinary shares at that time issued as a bonus to those who were turning over their assets for preferred shares?—A. No.

Q. They did not?

The Chairman: The answer is what, Mr. Miller?

The Witness: No.

By Mr. Sommerville:

Q. Were the assets that were turned over not fully represented by the value of $3,462,651.05 of preference shares issued at that time. The tangible assets consisted of $3,251,970.67, and the shares which had a value of $396,379.42; a total of $3,462,651.05 worth of stock.

Q. But at that time of the $5,400,500 of common shares issued, there was issued for goodwill, trade marks, etc., $5,214,800.96?—A. Yes, sir.

Q. And the 54,000 ordinary shares, practically all went to pay for goodwill, trade marks, taken over?—A. As stated, yes.

Q. In a sense they were not bonus shares?—A. No.

Q. But the assets which the Imperial Tobacco Company received were not cash, but goodwill, trade marks, etc.?—A. Not altogether.

Q. Whatever that may cover?—A. It is as stated.

Q. That covers a multitude of things in every organization, does it not?

By Mr. Factor:

Q. They were the intangible assets at any rate?—A. Yes, sir, goodwill, trade marks, and so forth.

By Mr. Sommerville:

Q. Will you tell me what happened to these particular common shares, 54,005 ordinary shares; what happened to the stock structure with reference to the shares; they were $100 shares?—A. They were exchanged for $5 par value shares.

Q. When did that take place?—A. That took place on May 31, 1912.

Q. On May 31, 1912; the Imperial Tobacco Company, as at present constituted?—A. No, that is in 1908.

Q. That is the 1908 Imperial Tobacco Company?—A. Yes.

Q. They issued 20 shares of common, of a par value of $5 each for each $100 of common stock then outstanding?—A. Yes.

Q. That is the next situation?—A. Yes.

Q. So that these 54,005 ordinary shares became what?—A. 1,080,100 shares.

By the Chairman:

Q. $100 shares?—A. No, $5 shares.

Q. $5 shares?—A. Yes.

Q. And that meant that the $100,000,000—in round terms, we will speak of it as approximately $100,000,000—of common shares was then outstanding?—A. $100,000,000?

The CHAIRMAN: No, no; $1,000,000.

Mr. SOMMERVILLE: I beg your pardon, $1,000,000.

By Mr. Factor:

Q. The par value did not change?—A. The total par value, no.

By Mr. Sommerville:

Q. Then, the 1,000,080 common shares then outstanding represented the price that was paid for goodwill, trade marks, etc., in 1908?—A. Well, less some—

Q. Less a few assets?—A. I do not know what you call a few—it was $180,000 approximately.

By Mr. Factor:

Q. That was all in 1908?—A. No.

Mr. SOMMERVILLE: The change in stock took place in 1912.

Mr. FACTOR: No, in 1912 there is $10,800,000.

Mr. SOMMERVILLE: That is the next set-up, we will come to that.

The CHAIRMAN: You had better describe that next set-up, it is a change in the capital value of the shares from $100 to $5?

The WITNESS: That is right.

The CHAIRMAN: Which called for 20 $5 shares for each $100 share.

By Mr. Sommerville:

Q. That took place in—?—A. May of 1912.

Q. At that time no additional cash was put into the company?—A. At that time, no.

Q. Then the next step was what, Mr. Miller?—A. Shortly following its incorporation the present 1912 company took over the business and operations of its predecessor, the 1908 company.

Q. When was the present company incorporated, what month?

Mr. FACTOR: April of 1912.

Mr. SOMMERVILLE: Yes, that is right; April of 1912, I understand, was the date of incorporation.

The WITNESS: April 3, 1912.

By Mr. Sommerville:

Q. What was his authorized capital?—A. Authorized—at that time?

The CHAIRMAN: It is on page 73, or 74 there; authorized capital $63,000,000.

The WITNESS: That is it.

By Mr. Sommerville:

Q. The present authorized capital then is—?—A. The original of April 3rd, 1912, was 1,999,995 one pound shares, of $4.86⅔.

By Mr. Factor:

Q. That is preference?—A. Yes. And six million ordinary shares of a par value of $5.

Q. Six million?—A. Yes, sir.

Q. Of $5, so that its authorized capital shares had a par value of $30,000,000?—A. Yes, sir.

By Mr. Kennedy (Winnipeg):

Q. What is the total of these two?—A. A par value of $39,733,309.

Q. The total authorized value was then $39,000,000?—A. Yes.

Q. That was a considerable reduction from your capital authorization?

The CHAIRMAN: No, increase.

Mr. KENNEDY (*Winnipeg*): I mean increase. The 1912 assets grew up to $63,000,000; but when incorporated in 1912—

The WITNESS: And in 1921.

By Mr. Sommerville:

Q. Just before we leave that: when that company was incorporated in 1912, it was with a view to turning over the assets to said company of this new company that the par value of common shares was reduced from $100 to $5?—A. I could not answer that, sir. You see, we—it was done with that object.

Q. When you were contemplating turning over the assets of the old Imperial Tobacco Company of 1908 to the newly incorporated company of 1912? —A. I could not answer that, sir.

Q. Well, you have given us the intimation that the change from $100 shares to $5 shares took place in May of 1912?—A. Yes, sir.

Q. This company was incorporated in April 1912?—A. Yes.

Q. With a view to taking over certain assets?—A. Yes, certain assets.

Q. And in the consummation of that enterprise the shares in the old company that was then going out of business were changed from $100 to $5 shares, common shares?—A. That is right.

The CHAIRMAN: Synchronized, in any case.

By Mr. Sommerville:

Q. And the old company did go out of business?—A. Yes, sir.

Q. Well then, what was paid by the new company for the new assets then taken over?—A. The present 1912 company took over the business operations of its predecessor, the 1908 company, paying the shareholders thereof 821,918 preference shares to the value of $4,000,000.93, together with 5,400,500 ordinary shares with a par value of $27,002,500.

Q. That is to say, when you took over the assets of the old company you paid the common shareholders of the old company share for share in the new company?—A. That is right.

Q. That is the same issue?—A. 5,400,000.

Q. Share for share in the new company, having a par value of $5.00?—A. That is right.

Q. So that at the close of that operation the new company had issued to the shareholders of the old company 5,400,500 ordinary shares of a par value of $5.00 each?—A. Yes.

Q. And the total par value of $27,002,500?

Mr. FACTOR: I do not understand that.

Mr. ILSLEY: That is share for share.

Mr. FACTOR: I thought that the ordinary shares had a par value of $5,400,000.

Mr. ILSLEY: So they did, and this is 5,400,500 shares.

Mr. SOMMERVILLE: Right—now we will get it.

The WITNESS: I think we are wrong there, there was 1,080,000 shares.

By the Chairman:

Q. What were they exchanged for?—A. For 5,400,500 shares.

By Mr. Sommerville:

Q. In other words, in the change from the new company to the old you gave five shares in the new company for each share in the old company?—A. Yes, sir.

Q. In ordinary shares?—A. Yes, sir.

Q. And the persons who received these 5 shares put up no additional company to the new company?—A. Not for that, not at that time.

Q. Then, when you were disposing of the preferred shares of the 1912 company, did you give share for share in the preferred share?—A. Yes, share for share.

Q. Share for share?—A. Yes, sir.

Q. So that what actually took place then was that the preferred shareholders in the 1908 company got preferred shares for the same amount and the same value in the new company?—A. Yes.

Q. And the common shareholders in the old company got 5 shares in the new company for each share they held?—A. That is right.

Q. In other words, you added $22,000,000 of capital issued at that time?—A. Yes.

Q. Which was distributed among the shareholders of the Imperial Tobacco Company of 1908?—A. Approximately, sir.

Mr. FACTOR: In other words, they got a bonus of about $22,000,000.

Mr. SOMMERVILLE: They got a bonus of $22,000,000 anyway.

The CHAIRMAN: Put that to the witness and ask him.

By Mr. Sommerville:

Q. In other words, the common shareholders of the 1908 Imperial Tobacco Company got a bonus of $22,000,000 in the ordinary shares of the new company?—A. Can I answer that by saying that they got $27,000,000 par value for $5,400,000 of the previous par value stock.

Q. What do you call that, a bonus or a premium?—A. It is an exchange of stock; I do not know what you would call it, sir.

Q. Oh, I see; well, all right.

Mr. FACTOR: It is a bonus all right.

By Mr. Sommerville:

Q. Well then, what was the next step in the set-up of the structure?—A. The Imperial Tobacco Company; you mean in issued stock.

Q. What took place, if anything, after that?—A. On September 30, 1912, there was an issue of 410,959 shares of preference stock for cash.

Q. And these were common shares?—A. No, preference shares.

Q. Preference shares?—A. For cash.

Q. Preference shares for cash, $2,000,000.47.

By Mr. Factor:

Q. That was cash paid into the company in September of 1912?—A. Yes, sir, in September of 1913 there was issued for cash, 417,123 shares for $2,029,998.60.

By Mr. Kennedy (Winnipeg):

Q. Preference shares?—A. Yes.

By Mr. Sommerville:

Q. That is the cash that came into the company?—A. Yes, sir.

Q. Now, were there any common shares given as a bonus or as part of the price paid for these preference shares?—A. No.

Q. They were sold on their own merits, alone?—A. Yes.

Q. Well then, we have here an addition of $4,000,000 in these two operations; we have an addition of $4,029,999.07 in capital, cash to the treasury of The Imperial Tobacco Company of 1912?—A. Yes.

Q. And no change in the common stock structure by reason of that operation?—A. No.

Q. Then, what was the next thing that happened?—A. In July of 1921 there was issued 400,000 ordinary shares of a par value of $5 each, amounting to $2,000,000 to the British American Tobacco Company Limited, for and in consideration of trade marks and goodwill pertaining to their business in Canada.

Q. In July of 1921 The American Tobacco Company were issued—?—A. The British American Tobacco Company Limited.

Q. The British American Tobacco Company were issued 400,000 ordinary shares having a par value of $5 each or $2,000,000?—A. Yes.

Q. For trade marks, and goodwill pertaining to their business in Canada?—A. Yes, sir.

Q. The British American Tobacco Company is the parent company of The Imperial Tobacco Company of Canada?—A. Yes, sir.

Q. And the British American Tobacco Company are the owners of a substantial portion of the shares of your company?—A. Yes, sir.

By Mr. Factor:

Q. Your prospectus says, controlled by the British American Tobacco Company Limited; do they hold a majority of the stock of the Imperial of Canada?—A. We have a list of the shareholders, we have submitted to you a list of the shareholders, I think.

Mr. SOMMERVILLE: Yes.

By Mr. Sommerville:

Q. But in actual fact that is the situation, is it not; that they are controlled by the British American Tobacco Company?—A. You have a list of the shareholders there, sir; technically—.

Q. Why debate it technically; is not it a fact that that is the way it is; it is with them that you do your business, and it is from them that you receive your orders as to policy?—A. Well, I would not say that, sir; except in the broadest sort of sense.

Q. I do not care how broad you make it?—A. All right, sir.

Q. They are the controlling factor in the Imperial Tobacco Company?—A. Yes, sir.

Mr. ILSLEY: This is the first time it has been mentioned in this statement; what kind of a company is it?

By Mr. Sommerville:

Q. Tell me, what is the British American Tobacco Company?—A. It is an English corporation, sir.

Q. Incorporated in England?—A. Yes, sir.

Q. And it has offices in the United States?—A. Its offices are in England.

Q. But they have offices in the United States?—A. Yes, sir.

Q. And has a number of officers there?—A. No—well, two I think.

Q. And it owns and controls a large number of companies in the United States?—A. Not a large number; not to my knowledge, sir.

Q. Is it not the owner or the controller of a very large business in the United States?—A. So far as my knowledge goes, sir, they control the Brown Williamson Tobacco Company.

Q. And that company is one of the largest cigarette manufacturers in the United States?—A. One of the smaller ones, sir.

Q. The Brown Williamson Company?—A. Yes, sir.

Q. One of the small ones?—A. Yes, sir.

The CHAIRMAN: You are getting into a new field there, where big things are handled in a big way.

The WITNESS: Well, by comparison, sir.

By Mr. Sommerville:

Q. Perhaps they are; they are one of the large companies handling the cheaper cigarettes?—A. The Brown Williamson Company is one of what they term the smaller four—the little four.

Q. Give me in your own words now, Mr. Miller—I am going to leave it entirely to you to say what is the position of the British American Tobacco Company as far as its business is concerned; what does it control, or direct, or own; or what does it have in the way of subsidiaries?—A. Well, it is a large tobacco company that has interests pretty well all over the world, generally speaking.

Q. I think in the Senate of the United States the other day it was said that they had the heathen for their inheritance and the ends of the earth for their

possession; was that a fair description of this British American Company?—A. They are pretty generally represented throughout the world. They have interests throughout the world.

Q. Are they the owners or have they a controlling interest in the Imperial Tobacco Company of Great Britain and Ireland?—A. Not to my knowledge or belief. I don't think so.

By Mr. Factor:

Q. Is it not the other way around? Does the Imperial Tobacco Company of Great Britain and Ireland not own substantial capital stock of the British American Tobacco Company?—A. I believe that to be true.

By Mr. Sommerville:

Q. Then the order is reversed. The Imperial Tobacco Company of Great Britain and Ireland owns the British American, or a very substantial share of the British American?—A. I think so.

Q. Do they control the activities of the British American?—A. Not to my knowledge or belief.

Q. At any rate, the British American is linked with the Imperial Tobacco Company of Great Britain and Ireland, and is linked with your company here?—A. Yes.

Q. And controls the company on this side of the line, at any rate?—A. Yes.

Q. What did they give for the $2,000,000 of common shares that were given to them in 1921?—A. They gave trade marks and goodwill pertaining to all of their business in Canada.

Q. What actually, did they have in Canada?—A. They had the rights to a lot of important brands in Canada. That is included in that.

By Mr. Kennedy (Winnipeg):

Q. Referring to the point under discussion, Mr. Miller, of the giving of $2,000,000 to the British American Tobacco Company in consideration of trade marks and goodwill in Canada, I suppose that issue would be pursuant to an agreement entered into?—A. Yes.

Q. In taking over the trade marks and goodwill of the British American Tobacco Company in Canada, would that exclude the British American Tobacco Company from operating here?—A. On these brands. I don't know that it was complete exclusion.

Q. That is the point I want to get?—A. I am not competent to answer that. That is legal.

Q. I am not asking it, as your friend suggests, from a strictly legal point of view. What was the understanding? Your company was paying $2,000,000?—A. Yes.

Q. For the trade marks and goodwill of the British American Tobacco Company in Canada?—A. Yes.

Q. What was the understanding of the Imperial Company as to what they were getting? What rights were they getting?—A. We were getting very valuable rights, brands and trade marks that were known throughout the world.

Q. And also was it excluding the British American Tobacco Company from carrying on business in Canada?—A. Truthfully I could not answer that. They don't carry on business here. I believe so.

By the Chairman:

Q. Would it not be reasonable to expect that if you paid out $2,000,000 for their brands, they would not themselves sell those brands in Canada?—A. Oh, they can't sell those brands.

By Mr. Kennedy (Winnipeg):

Q. I didn't mean those brands, but that they would not carry on business in Canada?—A. They don't; I could not answer that question positively.

Q. Since the date of that deal, or since the date of that purchase, the British American have not carried on business in Canada?—A. No, sir.

Mr. KENNEDY (*Winnipeg*): That answers it.

By Mr. Sommerville:

Q. Were they carrying on business independently of your company before that deal was made in 1921?—A. I don't think so.

Q. In other words, you were using those brands previous to 1929?—A. I don't say that.

Q. Well, were you not?—A. I understand we were conducting it on a royalty basis for them.

Q. But they owned your company or they controlled your company; you were manufacturing those brands in Canada and selling those brands in Canada. The British American were not doing that?—A. No, they were not; not directly. We were selling them under some arrangement, under agreement for them; or some of the brands.

Q. Then you took over these rights, whatever they were, and gave them $2,000,000?—A. Yes.

Q. Gave it to the people who controlled your company?—A. Yes.

Mr. FACTOR: Whatever they were. What were they?

By Mr. Sommerville:

Q. What were those rights?—A. I would have to get a copy of the agreement and refer to it. I would be glad to do that.

By the Chairman:

Q. You might mention some of them?—A. Well, Player's, Wills', Gold Flake, Ogden's, Capstan, Three Castles. Those were very prominent, the most prominent.

By Mr. Factor:

Q. What do you mean, that they had the patent to the name or cigarette?—A. They had trade-mark rights.

Q. You were selling those products under some arrangement with them?—A. Some of them; although, for instance, we were selling Player's, I think, I don't think we were selling Capstans at that time. They have just recently been put on the market, but Player's we were.

By Mr. Sommerville:

Q. Those that you were not manufacturing were not being made by the British American in this country in opposition to you?—A. No.

Q. However, that is the statement you made, and you will let us have the agreement under which that was transferred?—A. Yes.

Q. That increased the ordinary shares by 400,000 or $2,000,000. At that time there was no cash put in?—A. No, sir.

Q. What was the next step in the development of the stock structure?—A. In July, 1921, there was issued to Sir Mortimer Davis, Incorporated, 65,580 ordinary shares of a par value of $5 each, amounting to $327,900, for and in consideration of their holdings in the capital stock of Scales & Roberts Limited and the H. Fortier Company Limited.

Q. Who were Scales & Roberts Limited?—A. Jobbers, wholesalers.

Q. Wholesalers, where?—A. Head office in Toronto.
Q. Who were H. Fortier Company Limited?—A. They were jobbers.
Q. With head offices where?—A. In Montreal.

By Mr. Factor:

Q. Scales & Roberts had branches throughout Ontario?—A. Several branches. Probably half a dozen, I think.
Q. Did H. Fortier Company have branches?—A. No, no branches.
Q. They just had their place in Montreal?—A. Yes.

By Mr. Sommerville:

Q. For certain holdings in the capital stock of these two companies, there was issued to a company called Sir Mortimer Davis Incorporated, ordinary shares to the value of $327,900?—A. Yes.

By Mr. Factor:

Q. So that you acquired control of Scales & Roberts and H. Fortier?—A. Yes.

By Mr. Sommerville:

Q. At that time Sir Mortimer Davis was the president of your company?—A. Yes.
Q. Was it a new departure at that date, acquiring control of jobbers in the country?—A. Yes, on the part of the Imperial Tobacco Company.
Q. How long had they been controlled by Sir Mortimer Davis Incorporated?—A. I think it was several years; not more than five or six years, probably.
Q. So that the president, through his private company, owned these jobbing houses?—A. Yes.
Q. And then turned them over to your company?—A. Yes.
Q. For the consideration that has just been mentioned?—A. Yes.
Q. These were common or ordinary shares?—A. Yes.

By Mr. Factor:

Q. There was no cash in that transaction?—A. No, shares.
Q. Shares?—A. Yes, shares represented it.

By Mr. Sommerville:

Q. What was next?—A. In September, 1921, there was issued 420,000 ordinary shares of a par value of $5 each to the value of $2,100,000 which were paid for in full by cash.
Q. That is common, ordinary shares sold?—A. Yes.
Q. To the value of $2,100,000 in cash?—A. Yes.
Mr. Factor: Sold to the public?

By Mr. Sommerville:

Q. Was the issue sold to the public?—A. It was sold to some individuals in the company under some arrangement.
Q. This is in 1921?—A. Yes.
Q. Is not this the issue that took place to the officers in your own company?—A. Yes.
Q. Was that not issued as a bonus for services?—A. It was issued for cash.

By the Chairman:

Q. At par?—A. Yes, at par.

By Mr. Factor:

Q. You mean the officers paid cash for those shares?—A. Yes.

By Mr. Sommerville:

Q. Is it not correct to say that this issue was made to the executive officers in your company?—A. And others.

Q. For services rendered?—A. And to be rendered.

Q. And those services rendered or to be rendered were treated as cash?—A. No, they were issued for cash under some arrangement.

Q. What was the arrangement?—A. I have not got the particulars of it.

Mr. Ilsley: What did he mean by services to be rendered?

The Witness: Well, I mean in consideration—there was an agreement made with a trustee, whereby the trustee paid the par value for the stock, and the individuals paid the trustee over a period of years, to take delivery of the stock.

By Mr. Sommerville:

Q. Was there a relative increase in the salaries of the officials to whom this stock was sold, to take care of these payments?—A. No.

Q. My information is that this was a bonus issued to the employees or executive officers of your company, that it was put through the books as such, and treated as such, and that it was not an issue as in the ordinary course for cash?—A. It was issued for cash. Just a minute, please, till I look it up. It was issued to some, I would say, twenty-five different individuals.

Q. Twenty-five individuals who were officers?—A. And employees.

Q. Mostly executive officers, weren't they?—A. No, salesmen, factory managers, important men in the company. It was not limited to the executives at all.

Q. It was issued to them at par?—A. Yes, it was issued to a trustee at par, and they paid for it over a period of years.

By Mr. Kennedy (Winnipeg):

Q. They paid for it actually in cash?—A. Yes.

Q. Or were they credited on the stock by virtue of services rendered?—A. No, paid for in cash.

By Mr. Sommerville:

Q. Was there an arrangement for a certain amount to be taken from their salary to pay for it?—A. No.

By Mr. Factor:

Q. What was the market value of those shares in 1921?—A. I don't know.

Q. They were issued to them at par, $5?—A. Yes.

Q. Can you tell me what the market value was in 1921?—A. No, I don't know.

Q. Was there an agreement made, a written agreement, with the trustee in this transaction?—A. I think there was a written undertaking with the trustee.

Q. Will you let Mr. Sommerville have that agreement?

By Mr. Sommerville:

Q. Yes. I don't think anybody is complaining about the transaction at all. It was a favour to a certain group, of some twenty, you say?—A. Yes.

Q. To take the shares at par at the time?—A. Yes.

Q. You say you were paid in cash?—A. Yes.

Mr. Factor: Make a note to ask him the market value of the shares in 1921.

By Mr. Sommerville:

Q. What is the market value of those shares to-day, ordinary shares?—A. Around between $11 and $12.

Q. That is the $5 par value?—A. Yes.

Q. What was the next change that took place in your capital structure?—A. Over a period of time ending 30th September, 1927, the company issued as fully paid 1,299,080 ordinary shares of a par value of $6,495,400, in full settlement and consideration of the company's bonded obligation of $6,495,400; in other words, ordinary stock of the company was issued for bonds on a flat exchange at par value.

Mr. FACTOR: That is the first time I have heard of bonds. When were those bonds put out?

By Mr. Sommerville:

Q. Yes. I understand in the year 1921 you sold an issue of $6.500,000 of bonds of the company—

Mr. FACTOR: No, 1927.

By Mr. Sommerville:

Q. Yes, they sold an issue in 1921?—A. I have not got the particulars of it —about 1921.

Q. That is what I say. I understand that in or about the year 1921 you sold an issue of six and a half millions of bonds in England, largely?—A. Offered to the shareholders.

Q. To your shareholders?—A. Yes.

Q. And those bonds contained the privilege of exchanging at par value the bonds for ordinary shares?—A. Yes.

Q. Was that at the rate of two for one?—A. No, it was at the same par value.

Q. At the same par value?—A. Yes.

Q. That is to say, they could get dollar for dollar in ordinary shares, if they desired to exchange?—A. Par value.

Q. This bond issue was taken up by the shareholders of your company, and was afterwards exchanged by those shareholders. So that your bond issue was wiped out, and common shares were issued to the value of 6,495,400?—A. Yes, that is right.

Q. And that amount of cash was received by the company for the bonds? —A. Yes.

By Mr. Factor:

Q. What interest rate did those bonds carry?—A. Seven per cent.

By Mr. Sommerville:

Q. What was the next stock change that took place?—A. In October, 1928, the directors determined that a portion of the undivided profits that had been accumulated during the previous 16 years should be capitalized, and for that purpose issued as fully paid up, out of surplus, 1,517,032 ordinary shares having a par value of $7,585,160.

Q. That is to say, the directors issued a bonus, or 20 per cent stock dividend? —A. Yes.

Q. A stock dividend of 20 per cent?—A. Yes.

Q. And that represented 1,517,032 ordinary shares?—A. Yes.

Q. Of the par value of $7,585,160?—A. Yes.

Mr. ILSLEY: Where did you get the 20 per cent?

By Mr. Sommerville:

Q. At that time there were outstanding ordinary shares amounting to $7,500,000 odd?—A. Yes.

Q. The 20 per cent represented one-fifth of that?—A. That is right.

Q. And that was distributed to the shareholders?—A. Yes.

Mr. FACTOR: That is from accumulated profits?

Mr. SOMMERVILLE: From the accumulated profits.

By Mr. Sommerville:

Q. Then, what was the next change?—A. In a period terminating November, 1930, there were issued as fully paid 348,840 ordinary shares of a par value of $1,744,200 in full settlement and consideration of 11,628 ordinary shares of a par value of $100 each of the Tuckett Tobacco Company Limited.

Q. You acquired control of the Tuckett Tobacco Company Limited?—A. Ownership of the common stock.

Q. And for it you issued 348,840 ordinary shares?—A. Only for that number of ordinary shares of Tuckett.

Q. I beg your pardon?—A. I say that was issued for only that 11,628 ordinary shares of Tuckett. That was in full.

Q. That was the control?—A. No, not quite. Tucketts had 25,000 outstanding, ordinary shares.

Q. But that gave you a block of 11,628 ordinary shares for which you paid in the ordinary shares of your company $1,744,200?—A. Yes.

Q. Had they been acquired over a period of years by someone in your company?—A. No, sir.

Q. How did you acquire those shares in the Tuckett Company?—A. We made an offer to the Tuckett shareholders, a public offer.

Q. You made a public offer to the Tuckett shareholders?—A. Yes, to exchange.

Q. And there were exchanges to this extent at that time?—A. Yes.

Q. What did they represent, the 11,628 shares of the Tuckett Company; that would be about what?—A. $1,162,000.

Q. About $150 a share?—A. Yes.

Q. You would be paying the Tuckett people about $150 a share?—A. Yes.

Q. That would be on the basis of your shares at par?—A. Yes.

Q. Your shares at that time were substantially above par on the market?—A. Yes.

Q. As I understand it, in 1930 they were substantially above what they are at the present time, weren't they?—A. In 1930?

Q. Yes, in 1930?—A. I don't think so.

Q. Were they about the same price?—A. About the same. This is high.

Q. This is high?—A. To my knowledge.

Mr. ILSLEY: What is the Tuckett Company?

By Mr. Sommerville:

Q. What is the Tuckett Tobacco Company?—A. It is a company incorporated under Dominion laws, with headquarters in Hamilton, a factory in Hamilton.

By the Chairman:

Q. A very well known, old tobacco company?—A. Yes, a very old tobacco and cigarette manufacturing company.

By Mr. Factor:

Q. With factories in London and Montreal?—A. No. They did have factories at one time in London, and they have not one at the present time in Montreal; just in Hamilton.

Q. Do they also control a subsidiary called the Tobacco Produce Corporation of Canada?—A. Yes.

By Mr. Sommerville:

Q. To summarize, the present outstanding capital of the Imperial Tobbaco Company consists of $8,030,000 in preference capital?—A. Yes.

Q. $47,255,160 in ordinary capital?—A. Yes.

Q. Which was issued in consideration of $24,036,380.91 in tangible assets?—A. Yes.

Q. And 2,431,978.13 shares in various companies?—A. Yes.

By the Chairman:

Q. That is 2,431,978.13 dollars, not shares?—A. Par value.

By Mr. Sommerville:

Q. That is, your $24,036,380.91 included in tangible assets?—A. No, tangible assets of $24,000,000 odd.

Q. Then $2,431,978.13 shares were issued in payment of shares in other companies?—A. No par value.

Q. The shares in the various companies, together with the tangible assets which you received, accounted for the $24,036,380.91?—A. Plus $2,431,978.13, the two together. I don't know that I understand your question clearly.

Q. We will just talk about the outstanding capital structure?—A. Yes. There is $47,255,000 odd ordinary capital that has been issued, and $8,000,000 odd preference, and it is stated there that that is represented by tangible assets of $24,036,000 odd.

Q. Right?—A. And in shares which might represent tangible and intangible, or is tangible, I suppose, $2,413,000 odd, which leaves a difference of $28,816,000 odd for trade marks, goodwill and so forth.

Mr. Ilsley: Mostly "and so forth."

Mr. Factor: I would like to get, if possible, how much was cash. There is a total capitalization of preference and ordinary shares of $55,285,160. How much of that was actual cash?

Mr. Sommerville: That is exactly what I was coming to now.

By Mr. Sommerville:

Q. What of that was actual cash paid into your company?—A. First of all, there was $1,000,000.

Mr. Kennedy (Winnipeg): Mr. Sommerville, I just tabulated that from the pages here. Might I just check it?

Mr. Sommerville: Yes, I think we can get it very briefly.

By Mr. Kennedy (Winnipeg):

Q. Mr. Miller, referring to the point at issue, in your final paragraph here you sum it up?—A. Yes.

Q. Your present issued capital is preference stock, $8,030,000?—A. Yes.

Q. Ordinary stock, $47,255,160?—A. Yes.

Q. A total of $55,285,160?—A. That is right.

Q. That is your present issued capital stock?—A. Yes.

Q. Now, checking back—correct me if I am wrong—starting at page 73, as to the actual cash put into the company I have these items. You might follow them. First, in 1895 there was put in in cash into the American Tobacco Company $1,000,000?—A. Yes.

Q. Next in 1908 there was an issue represented to be paid for in cash by the Imperial Tobacco Company of $537,348.13.

Mr. FACTOR: Where is that?

The WITNESS: I don't see that. Where is it? Oh, that was in October, 1908, you mean?

By Mr. Kennedy (Winnipeg):

Q. Yes, I will repeat that. In October, 1908, there was put in in cash $537,348.13?—A. Yes.

Q. The next item I have is September, 1912, when there was another cash issue of $2,000,000.47?—A. Yes.

Q. The next one is in 1913, the next paragraph?—A. Yes.

Q. October, I think?—A. September.

Q. September of 1913?—A. Yes.

Q. Another cash issue of $2,029,998.60?—A. Yes.

Q. Then the next cash item that appears is in 1921, amounting to $2,100,000.

Mr. FACTOR: That is of the employees.

By Mr. Kennedy (Winnipeg):

Q. Yes, it is referred to as cash?—A. Yes.

Q. That is all I find. That is the total of cash put in?—A. How about bonds?

Mr. SOMMERVILLE: Your bonds must be included.

Mr. KENNEDY (*Winnipeg*): No, for another purpose.

By Mr. Kennedy (Winnipeg):

Q. These bonds are paid for by the issue of some capital stock?—A. The original cash was paid for them.

Mr. SOMMERVILLE: Cash went in; the original cash went in.

Mr. KENNEDY (*Winnipeg*): We will add that. What is the amount of the bonds?

Mr. FACTOR: $6,495,400.

By Mr. Kennedy (Winnipeg):

Q. That will make a total of cash of $14,162,747.20?—A. Yes. There was also issued $2,000,000 to the trustee for the benefit of the employees.

Mr. FACTOR: That is included.

Mr. KENNEDY (*Winnipeg*): Yes, included in the $2,100,000.

Mr. FACTOR: That is the total cash invested.

By Mr. Kennedy (Winnipeg):

Q. The shares of the other companies was paid for by the issue of stock out of this company?—A. That is right.

Q. Out of earnings?—A. No, not out of earnings necessarily.

Q. Well, it is stock?—A. It is capital.

Q. What I am trying to get at is the amount of cash that was actually put into this company. The total amount appears to be $14,162,747.20?—A. I was going to say, for instance take the Tuckett issue—it seems to me that it is the

same thing, where we sold our common stock for cash and paid cash to the Tuckett shareholders for our stock.

Mr. Ilsley: We understand that.

The Chairman: I think Mr. Miller, who is representing his company, has the right to draw attention at this point to shares that were issued for real value, whether they were for cash or assets.

The Witness: Yes.

The Chairman: He merely wants to be fair.

Mr. Ilsley: In order to make it fair, we have got to get this, try to get the capital.

Mr. Sommerville: I think if you will just add to the $14,000,000, what was paid out for tangible assets, that would give it.

The Chairman: Sir Mortimer Davis.

By Mr. Factor:

Q. Let us get a separate schedule; the actual cash investment is $14,162,-747.20?—A. I have not checked that, but the net result is referred to in the last paragraph, as to what the whole capital structure is.

Q. I want a separate schedule of what you paid, what you call tangible assets. Let us take that in a separate schedule and then we can get a picture of this.

Mr. Kennedy (*Winnipeg*): Mr. Factor, I am just at the end of my question. I wonder if I might pursue it?

The Chairman: Pursue your question, Mr. Kennedy.

By Mr. Kennedy (Winnipeg):

Q. I have gone through some of the material and have picked out several places where it has been mentioned that shares have been issued for cash?—A. That is right.

Q. I will read them if you like. The total there was $7,667.347.20?—A. Didn't you overlook the bonds.

Q. That is the cash I am talking about; then you issued in payment of bond obligations, $6,495,400?—A. That is cash received from the issue of bonds.

Q. That makes the total represented by cash $14,162,470.20; is that right? —A. I think that is approximately correct sir, for actual cash, if you eliminate the question of other tangible assets.

Q. Without eliminating, we can come to that later?—A. All right, sir.

Q. But, that is cash?—A. Approximately, subject to verification, I think that is approximately correct.

Q. And it has been built up—I am not raising any question as to how—but it has been built up to the present paid-up capitalization of over $55,000,000?—A. But other tangible assets.

Mr. Sommerville: Tangible and intangible.

Mr. Kennedy (*Winnipeg*): Quite true. I say it has been built up to the present capital of $55,000,000.

Mr. Sommerville: That is the market value of about $11 for each $5 share.

Mr. Kennedy (*Winnipeg*): The market value is upwards of $100,000,000.

The Chairman: Excuse me one minute; let Mr. Miller answer that last question by Mr. Kennedy; Mr. Kennedy says that this has been built up to $55,000.000. Mr. Miller certainly should have an opportunity to make any answer he wishes to that question.

The WITNESS: Well, it has been built up through the issue of stocks either for tangible assets or stocks in other companies to the total of the net final result as previously said, having been issued for $24,036,380.91 in tangible assets, and $2,431,978.15 in shares of various companies.

Mr. SOMMERVILLE: And $28,816,800.96 for trade marks, goodwill, etc.

Mr. KENNEDY (*Winnipeg*): I am not suggesting that there is no value there for the $55,000,000 odd, I was just trying to follow the history of how it built up from a certain investment—I am not questioning the value behind that $55,000,000.

By Mr. Sommerville:

Q. Now then, Mr. Miller, do you want to make a list of the stocks issued for the tangible assets?—A. Would you like us to compare your list?

Q. Yes. I just want a schedule of how you make up the tangible assets of $24,036,380?—A. It will be filed.

The CHAIRMAN: I think it is all set out in the schedule.

Mr. ILSLEY: He wants the tangible assets which account for the cash exclusively.

Mr. SOMMERVILLE: They can be worked out very simply now, can they not; let us have them now.

The CHAIRMAN: Mortimer Davis, Tucketts, and the bonus.

The WITNESS: I think it would be better if you let us file a statement later on. I think it has been fairly covered in this brief here.

The CHAIRMAN: All right. Mr. Miller will file the statement. In the meantime, I think it is pretty well down in this statement here. We can check his.

Mr. ILSLEY: Before you leave that, there is just a question: we might take the shares, these shares may have been built up from very humble beginnings; perhaps that is a matter for enquiry—is it, Mr. Sommerville?

Mr. SOMMERVILLE: It may be.

Mr. ILSLEY: Yes.

Mr. FACTOR: Mr. Ilsley's remark here should be developed. In producing the statement of these tangible assets, and the shares of other companies, we ought to analyze these other companies to see how their shares were built up.

Mr. SOMMERVILLE: That may be, but on the other hand this company paid for them; whoever may have received the benefit from the building up may have been entirely different from these shareholders.

Mr. ILSLEY: They may have been, they may not have been; time after time big prices are paid because some people are interested.

Mr. SOMMERVILLE: That is perfectly true.

Mr. KENNEDY (*Winnipeg*): The point just raised by Mr. Factor and Mr. Ilsley is, I think, well indicated in the second last paragraph on page 75 where they took over the stock in the Tuckett Tobacco Company. There it is set out: in a period terminating November 1930 there were issued as fully paid 348,840 ordinary shares of a par value of $1,744,200 in full settlement and consideration of 11,628 ordinary shares of a par value of $100 each to the Tuckett Company; so that indicates the accretion in the value of the stock of the Tuckett Company there.

Mr. ILSLEY: Yes.

Mr. KENNEDY (*Winnipeg*): The original cost of the Tuckett shares at $100 each would be—?

The CHAIRMAN: $110,000.

Mr. KENNEDY (*Winnipeg*): $116,280.

Mr. SOMMERVILLE: Yes.

Q. Which was bought for $1,744,200.

Mr. FACTOR: It becomes very important, because I see here in the statement of the Tuckett Tobacco Company that on common shares the dividend was 32 per cent per annum in January of 1933; so that these shares may have been capitalized—the accummulated profits may have been capitalized in the Tuckett Tobacco Company.

Mr. SOMMERVILLE: I propose to deal with some of these companies now.

By Mr. Factor:

Q. Can you tell me what the market value of the capital is now?—A. You mean, the preference stock.

Q. Take the ordinary common shares, $47,000,000 of common shares?—A. They are selling at around $11 or $12 a share.

By Mr. Kennedy (Winnipeg):

Q. And the par value is $5?—A. Yes.

Q. What about the preference shares?—A. Selling about 27 shillings the same as sold in England.

Q. And the pound is what?—A. 20 shillings—4.86\frac{2}{3}$.

By Mr. Sommerville:

Q. Your company also owns the National Tobacco Company?—A. No, we have a 50 per cent interest in it.

Q. And you acquired that in July 1908?—A. Just a minute, I will find the statement—what was your question again.

Q. The interest of the Imperial Tobacco Company in the National Tobacco Company Limited was originally secured by the purchase of 250 ordinary shares in the National Snuff Company?—A. Yes.

Q. And these shares were acquired from the American Tobacco Company in July 1908, and I understand that that was done through the issue of preference shares in the Imperial Tobacco Company of Canada Limited in 1908 to the value of $25,200?—A. Yes.

Q. I am taking your statement at page 2?—A. Yes.

Q. Then you issued preference $25,200 to pay for 250 ordinary shares of the National Snuff Company?—A. Yes.

Q. The National Snuff Company apparently owned the National Tobacco Company?—A. No, I think there was a change in the name subsequently.

Q. At the time when you acquired them, you acquired the shares in not the National Tobacco Company, but the National Snuff Company which controlled the National Tobacco Company?—A. Yes.

Q. Subsequently the National Snuff Company issued script as dividends to all shareholders, and the Imperial Tobacco Company of Canada Limited by this means acquired script in the National Snuff Company to the value of $25,000?—A. Yes.

Q. Was that in lieu of the preference shares, or was it additional to them? —A. It was additional.

Q. In the nature of a stock dividend?—A. No, cash.

Q. Script?—A. No, cash.

Q. Then you got back $25,000 return from that $25,000 in cash?—A. No, we paid them an additional $25,000.

Q. No, you acquired script in the National Snuff Company to the value of $25,000?—A. Yes.

Q. And you had already issued to them preference shares to the value of $25,000, so you got your money back?—A. I will be glad to look into that and give you an answer.

Q. I am reading from your statement?—A. All right, sir. Subsequently the National Snuff Company issued script as dividend to ordinary shareholders, and the Imperial Tobacco Company by this means acquired script in the National Snuff Company—we got an additional—.

Q. You got an additional $25,000?—A. Yes.

Q. And that paid you for the value of the shares that had been issued to the Snuff Company, $25,200 had been issued?—A. I do not know, sir; it appears so from this statement.

Q. It is a simple mathematical proposition?—A. I did not realize it.

Q. In June of 1913 the National Tobacco Company was incorporated with an authorized capital of $4,000,000, divided into 800,000 shares with a par value of $5 each?—A. Yes.

Q. Now, you did receive back all the money from the National Tobacco Company that had been put in, $25,000; and when that incorporation took place the National Tobacco then acquired the National Snuff Company as a going concern, the consideration being the issue of the total authorized capital of the new company to the nominees of the old company; that is correct, is it not? I am following the statement you have given me?—A. All right, sir.

Q. Reading further from your statement to me: by this means the Imperial Tobacco Company of Canada Limited 1912, acquired its present holdings in the National Tobacco Company Limited amounting to 400,000 shares of a total par value of $2,000,000. Now, that is correct, is it not?—A. Yes, sir.

Q. The total par value?—A. Yes.

Q. Then let me read the profits for the past few years:—

1924	$365,174.55
1925	398,459.12
1926	427,399.55
1927	469,070.76
1928	546,086.60
1929	537,921.76
1930 for 15 months ending December 31	714,654.82
1931 12 months ending December 31	487,192.80
1932	428,911.54
1933	403,240.28

Those were the profits of the respective years?—A. Yes, sir.

Q. And in that company you have a 50 per cent interest?—A. Yes, sir.

Q. And that 50 per cent interest really cost you nothing?—A. I think there is some mistake about that statement, sir; it did cost us something, I am sure that it did.

Q. You issued $25,000 of preferred shares in the Imperial Company for the stock which subsequently became $2,000,000 par value?—A. Yes, sir.

Q. And you got back a dividend of $25 000 in scrip?—A. It certainly appears so, sir, from this record, but I think probably in our effort to try to produce all these things in a hurry—and this is an old transaction—there must be something misleading about that statement, because I do not think that that is true.

Q. Well, supposing that we forget the scrip entirely, leave out the question of what we got back. Then the situation is, that for $25 par value of preferred shares in the Imperial Tobacco Company you subsequently got $2,000,000 par value in the National Tobacco Company?—A. That is correct.

Q. Out of $4,000,000?—A. Yes.

Q. And that represented 50 per cent of the assets of this company?—A. Yes.

Q. And from that company you have been receiving very substantial profits every year for many years?—A. Yes, sir.

Q. And in that company you have a 50 per cent interest in the undivided profits of that company?—A. Yes.

Q. Whatever they may be at the present time?—A. Yes.

Q. Perhaps you have not got that figure?—A. I have not, sir.

Q. But the undivided profits at the present time must have accumulated to quite a substantial sum?—A. I have not got that, sir.

Q. Will you be good enough to let us have that?—A. Yes.

Q. Perhaps before we leave the National Tobacco Company, the dividend that you received last year, for the year ending 31st December, 1933, from the National Tobacco Company, Limited, amounted to $195,000?—A. That is the record, yes.

Q. That is on an original investment of $25,000?—A. Yes. I think there are some additions to that investment though, sir. I will be glad to find out.

Q. Whatever they are we will be glad to have them; and, relatively, you received similar amounts each year?—A. Yes, sir.

Q. During the past ten years?—A. Yes.

Q. Perhaps I might look at 1932. In the year 1932, the dividend that you received from the National Tobacco Company Limited, for the year ending 31st December, 1932, was $400,000?—A. That is so.

Q. Since then, have you acquired all the shares in that company, or do you still own just half of them?—A. Half of them.

Q. Who owns the other half?—A. The United States Tobacco Company.

Q. The United States Tobacco Company?—A. Yes, of New York.

Q. Is that a subsidiary of the British American Tobacco Company?—A. No, sir.

Q. Not connected with it in any way?—A. No, not to my knowledge or belief, sir.

Q. Or the Imperial?—A. No, not to my knowledge or belief.

Q. And in the year 1931, you received as dividends from the company, the sum of $240,000?—A. Yes.

Q. And while we are at it, for the year 1930 you received as dividends from the National Tobacco Company Limited, the amount of $300,000?—A. Yes, sir.

Q. And for the year 1929 you received as dividends from the National Tobacco Company Limited $240,000?—A. Yes, sir.

Q. Now, that is just for these last five years, but I have no doubt that, relatively speaking, you received the same proportion of dividends for the previous five years?—A. I think so, sir.

The committee adjourned at 1 p.m. to resume at 3.30 p.m.

AFTERNOON SITTING

The committee resumed at 3.30 p.m.

Gray Miller, recalled.

By Mr. Sommerville:

Q. Mr. Miller, I don't know whether at the noon recess you took occasion, or did find anything more about the $25,000 dividend of the National Tobacco Company that we were inquiring about?—A. I think I could clarify that.

Q. I thought while it was fresh in our memory, perhaps you would like to do that?—A. Yes. We tried. I have a little memorandum which I hope

will make it clear. The American Tobacco Company of Canada Limited held 250 shares in the National Snuff Company, representing an investment of $25,200. The Imperial Tobacco Company of Canada, 1908 company, acquired these shares when they took over the business of the American Tobacco Company of Canada, as previously explained. During the time these 250 shares were held by the I. T. Company of Canada, 1908—

Q. The Imperial Tobacco Company of Canada, 1908?—A. Yes. —the National Snuff Company declared out of accumulated profits a dividend in the form of interest—bearing scrip, the value of the Imperial Tobacco Company (1908) of Canada's share of this scrip dividend being $25,000. The Imperial Tobacco Company of Canada, 1912 company, acquired these 250 shares and the $25,000 worth of scrip which had not been redeemed by the National Snuff Company, when they took over the business of the Imperial Tobacco Company (1908) as previously explained.

Q. The Imperial Tobacco Company of 1908?—A. Yes. In 1913 the National Tobacco Company, Limited—that is a new company that you just had the earnings of—took over the business of the National Snuff Company; and issued capital stock in payment of the National Snuff Company's liability in the scrip referred to above. Is that clear?

Q. In scrip and in preferred shares?—A. No, in scrip. Let us see, in 1913 there was not any. The Imperial Tobacco Company, 1908, already had at that time the $25,200 worth of stock.

Q. 250 shares?—A. Yes.

Q. Or ordinary shares?—A. Preferred. They had issued preferred stock for taking it over from the American Tobacco Company.

Q. The 1908 company held 250 ordinary shares of the National Snuff Company?—A. Yes.

Q. And then subsequently the National Snuff Company issued scrip?—A. Declared a dividend in scrip.

Q. They declared a dividend in the form of scrip?—A. Yes.

Q. Bearing interest at 7 per cent?—A. I don't remember the interest. I can verify that.

Q. Bearing interest, at any rate?—A. Yes.

Q. The amount that went to the Imperial Tobacco Company of 1908 was $25,000 of that scrip?—A. That is right.

Q. So that the Imperial Tobacco Company of 1908 got $25,000 in scrip as their share of the dividend?—A. That is right.

Q. And they still held 250 shares, common shares, of the National Snuff Company?—A. Yes.

Q. Then when the National Snuff Company sold out to the National Tobacco Company—in June, 1931, was it?—A. In 1913, yes.

Q. The position then was that they owed to the Imperial Tobacco Company of 1908, $25,000 in scrip?—A. Yes.

Q. And the Imperial Tobacco Company had at that time $25,200 worth of stock?—A. Of stock.

Q. 250 shares of stock?—A. Yes.

Q. And for that they got, or for the scrip they got—A. Scrip and stock.

Q. Then in 1913 the National Tobacco Company was incorporated with $4,000,000 capital?—A. That is right.

Q. Divided into 800,000 shares of $5 each?—A. Yes.

Q. And for the $25,000 of scrip——A. And the stock.

Q. —and the stock, 250 shares of stock, the Imperial Tobacco Company got 400,000 shares of the par value of $5 each?—A. Yes, 400,000. That is right. So that their investment stood at $50,200.

Q. $50,200?—A. Yes.

Q. For which they got stock to the par value of $2,000,000?—A. Yes.

Q. The investment having accumulated from the original $25,000, by reason of the script dividend that had been declared?—A. I don't just understand your question.

Q. Well, they had originally $25,000?—A. They declared a dividend which they didn't pay in cash. They had to pay it sometime. It was a liability.

Mr. Factor: The dividend was declared by the National Snuff Company?

Mr. Sommerville: Yes.

Mr. Factor: But when the Imperial Tobacco Company paid $25,000 for the stock, they got in return $25,000 worth of scrip.

Mr. Sommerville: Yes.

Mr. Factor: I may be dense, but I can't see how you make a $50,000 investment.

Mr. Sommerville: Well, it seems very simple.

The Witness: May I read the final paragraph?

By Mr. Sommerville:

Q. The original investment of the Imperial Tobacco Company in the National Snuff Company was $25,000?—A. And $200.

Q. $25,200?—A. Yes.

Q. And for that they had 250 shares of ordinary stock?—A. Yes.

Q. That investment stood?—A. Yes.

Q. And that investment passed on from the Imperial Tobacco Company (1908) to the Imperial Tobacco Company (1912)?—A. Yes.

Q. In the meantime, the National Snuff Company declared a dividend of $25,000 represented by scrip?—A. Yes.

Q. Which they handed out to the Imperial Tobacco Company?—A. Yes.

Q. So that at that time the Imperial Tobacco Company's investment was represented by $50,200, made up of those two factors?—A. That is right.

Q. And for that $50,200, they received the $2,000,000 of shares in the National Tobacco Company?—A. Cancelling the scrip and the stock.

Mr. Ilsley: Why do you say it was an investment of $50,000? The scrip is nothing more nor less than an unpaid dividend on a $25,000 investment.

Mr. Sommerville: That is perfectly true.

Mr. Ilsley: Then there is an investment of $25,200.

Mr. Sommerville: There was an investment of $25,000 plus an unpaid dividend of $25,000.

Mr. Ilsley: It is like any other unpaid dividend.

The Witness: Like any unpaid liability; note, bond or anything else.

Mr. Factor: The $25,000 pales into insignificance compared with the profits. We are just wasting a lot of time.

Mr. Sommerville: The net result is that the $25,000 represented by stock, the amount paid for the stock, was represented by your dividend.

Mr. Ilsley: What is the difference between scrip and an unpaid dividend, except that it bore interest?

By Mr. Sommerville:

Q. Well, if you invested $25,000 in a company and got $25,000 dividends, you got your money back, didn't you?—A. Yes. In a period of time. It depends on how long you had it.

Q. I quite appreciate that?—A. I think we have got the explanation there.

The CHAIRMAN: It would be perhaps more profitable if we simply added the value of the scrip to the subsequent earnings that came to the original stock investment.

Mr. SOMMERVILLE: Yes.

Mr. FACTOR: I think that is the way to do it.

By Mr. Sommerville:

Q. What interest do you own in the B. Houde Company, Limited?—A. We own 4,352 shares out of the total issue of 5,000 shares; roughly 87 per cent.

Q. There is issued 5,000 shares of $100 each?—A. Yes.

Q. The total capitalization of that company is $500,000?—A. That is right.

Q. And you hold 87 per cent of the shares of that company?—A. Yes.

Q. That company manufactures what?—A. Tobaccos.

Q. Smoking?—A. Yes.

Q. Cigarette?—A. No, sir.

Q. Just tobaccos?—A. Yes.

Q. Pipe?—A. Pipe and fine cut.

Q. They don't manufacture cigars?—A. No, sir.

Q. I observe the profits of that company for the ten years from 1924 are as you submitted them to me?—A. Yes.

Q. 1924, twelve months to September 30, $16,096.97?—A. Yes.

Q. 1925, $109,392.90?—A. Yes.

Q. 1926, $150,528.34?—A. Yes.

Q. 1927, $182,272.55; 1928, $191,195.29; 1929, $164,551.02; 1930, fifteen months to December 31st, $175,505.38; 1931, twelve months to December 31st, $176,624.41; 1932, $79,825.14; and 1933, $54,419.47?—A. Yes, sir.

Q. And the amounts that you received in the Imperial Tobacco Company from the Houde Company's dividends are as follows: In 1929 you received in dividends from the B. Houde Company $130,560?—A. From the statement you have. I have not the information.

Q. And in 1920 you received from the B. Houde Company dividends of $145,792. In 1931 from that company, dividends to the extent of $287,232. I observe that your share of dividends for 1932 amounted to $287,232; although the profits for the year amounted to $79,825.14. I presume they were accumulated profits?—A. Undoubtedly.

Q. For the year 1932 you received $78,336; and for the year 1933, $43,520. Now, what was the amount paid for that investment in the B. Houde Company?—A. Is it not shown on that statement? I think you will find it on that statement. I have not got all the particulars with regard to that.

Q. No, it does not appear?—A. It does not appear on our balance sheet?

Q. No, it does not appear?—A. I will be glad to furnish that to you, sir.

Q. Perhaps it is in your brief?—A. I do not think it is dealt with in the brief.

The CHAIRMAN: Page 73 shows the B. Houde Company, the National Snuff Company Limited and the Joliette.

The WITNESS: All brought into the same figure, it is not broken up into units.

By Mr. Sommerville:

Q. I observe that the total amount that you paid for the shares of B. Houde Limited, the National Snuff Company Limited, and the Joliette Tobacco Company Limited was $396,379.42?—A. Yes.

Q. Paid by the issue of shares in the Imperial Tobacco Company of 1908?—A. Yes.

By Mr. Factor:

Q. What would be the value of these shares, $100 each?—A. Yes.

By Mr. Sommerville:

Q. You own what proportion of the Tuckett Tobacco Company?—A. We own all of the outstanding common capital stock.

Q. Of the Tuckett Tobacco Company?—A. Yes. But that is a preferred issue of $2,000,000.

Q. What does that amount to?—A. A par value of $2,500,000 on the common stock; $2,000,000 preferred stock.

Q. $2,000,000 preferred stock?—A. Yes.

Q. And there is $2,000,000 common stock?—A. $2,500,000 common stock.

Q. Which was 25,000 ordinary shares at $100 each; and you own all of the common stock?—A. Yes.

By Mr. Factor:

Q. Where do you refer to that? I think it was only 11,000 shares?—A. We purchased the balance for cash.

By Mr. Sommerville:

Q. Perhaps you can tell us then how you purchased the 11,000 shares?—A. 11,628 ordinary shares were acquired by our issuing 348,000 shares of our ordinary stock, and the balance was acquired.

Q. That was on a par value of about $744,200?—A. Yes, sir.

Q. And the balance is purchased—?—A. For cash.

Q. By your company?—A. By our company, yes, sir.

Q. Out of its accumulated assets?—A. Yes, sir.

Q. What was the amount paid for the balance then?—A. We purchased 11,501 shares from the Tobacco Products Export Corporation of New York for the sum of $2,990,260.

Q. $2,990,260?—A. And 1,871 shares were purchased on the market in Montreal for the sum of $381,065.90.

By Mr. Senn:

Q. That would be $200 a share?—A. Yes, about $200 a share.

Mr. Sommerville: So that you paid altogether a sum of about $3,200,000.

Mr. Ilsley: What do you count they paid when they issued their shares, are you taking the par value of their shares.

By Mr. Sommerville:

Q. What amount then did you pay altogether for the 2,500 common shares of this company?—A. Altogether?

Q. Yes?—A. $5,115,525, including the stock.

Q. Yes?—A. There was an issue of stock.

Q. Was that at par?—A. Yes, par.

By Mr. Ilsley:

Q. But your shares are worth more than that?—A. They were selling at something over par at that time, I am reasonably sure.

Q. I thought perhaps it was twice that?—A. I do not remember what it was.

By Mr. Sommerville:

Q. Then the shares you purchased from the Tobacco Product Export Corporation of New York, is that a subsidiary of the British American Tobacco Company?—A. No, sir, not to my knowledge.

Q. Are they connected in some way with them?—A. Not to my knowledge. They may have some shares in it but they certainly do not control it.

Q. By whom is it controlled?—A. It is a public company. I do not know that it is controlled by anybody. I do not even know—I do know who is the president of it, a fellow by the name of Chalkley.

Q. I was under the impression that that was one of the companies in the British American group?—A. No, they may have some share interest; I am not familiar with that.

Q. At any rate, that is the price you paid for the Tuckett Company's common share?—A. Yes.

Q. And I observe that the profits for the last five years in that company, to the 31st March in each year, were: for 1929, $456,791.15; for 1930, $634,625.91; for 1931, $729,015.69; for 1932, $732,944.74; for 1933, $496,908.39?—A. Yes, sir.

Q. And of that amount there was paid into your company in 1929 -I think the first payment was, in what year?—A. I have not the information. They have paid a dividend right along.

Q. In 1931 there was paid into your company $113,284 -December 31, 1930? —A. I have not the information there, sir.

Q. The statement shows that it was paid into your company, $113,284. Then in the year 1931 there was paid into your company by the Tuckett Tobacco Company, $250,000. In 1932 the sum of $800,000, less an amount reserved of $325,000, net $475,000—what does that mean?—A. That means that we did not take into income all the dividends that were paid by the Tuckett Company to ourselves, but set it up as a reserve against the price of the stock.

Q. But the Tuckett Company paid to your company $800,000?—A. Well, you have the statement there.

Q. The statement shows that. Of that $800,000 you took into your account as income $435,000?—A. Yes.

Q. And you set up $325,000 as a reserve?—A. Yes, sir.

Q. Against what?—A. Against possible contingencies on investments of subsidiary companies.

Q. Yes, I see. That was one of the reserves built up at that time?—A. Yes, sir. And I think there was some perhaps in previous years—$30,418.

Q. What was that, what did you receive the previous year?—A. I am not sure about that, I think from the difference in the figures you have given there was some. I will find out if you wish.

Q. It does not show here in your statement?—A. I see, I may be wrong.

Mr. Ilsley: Mr. Sommerville, just explain where you are going in your questioning; or are you going to get that direct. I don't just understand—we are trying to show that these were very profitable investments during these years.

Mr. Sommerville: I am eandeavouring to show the accumulation of profit from these various sources, and then the accumulative reserves that there are in these various companies.

Mr. Ilsley: Yes: I can't make very much out of it, for this reason. I did not know what they paid for the shares in this Tuckett Company, is it shown in the material here.

The Chairman: The details were given this morning, Mr. Ilsley.

By Mr. Sommerville:

Q. They are being put there from time to time?—A. For a short time, sir.

The Chairman: November of 1930 was really the base-line date for the acquisition of the stock; that is set forth on page 75.

Mr. Ilsley: That is when they issued their shares for the bulk of the stock.

The CHAIRMAN: Subsequently they bought part for cash from the American concern, and part on the open market.

The WITNESS: It was all within a short time.

By Mr. Sommerville:

Q. Within one year?—A. Yes, within a few months.

Mr. ILSLEY: Without knowing that, these figures have no meaning in relation to the amount you are receiving from it.

By Mr. Sommerville:

Q. Then, may we take it that up to the end of 1930 you had acquired all the assets of the Tuckett Company under the common shares?—A. I think that is the date, yes.

By Mr. Ilsley:

Q. Is that your policy in connection with companies in which you have investments, to only take a part of the dividends and leave the rest there as what you would call a reserve?—A. I do not know that we have any very positive policy.

By Mr. Sommerville:

Q. I do not know—if they are to take them and divide them up into two funds, one into your income fund and the other you set up as a capital reserve.

The CHAIRMAN: In the Imperial Tobacco Company's books.

The WITNESS: Yes.

By Mr. Ilsley:

Q. What is the advantage of that practice?—A. Well, it is a matter of policy; we think it is conservative accounting I suppose, or finance.

Q. Why would that practice be followed rather than counting the whole dividends as income of your company, and then appropriating a certain amount as reserve?—A. That is hard to answer, it is a matter of opinion, I would say, Mr. Ilsley.

Q. I was just wondering why, there must be some reason for doing this; do you have many of these accounts?—A. Many of which accounts?

Q. Do you have many of these divisions of dividends in these companies in which you have invested?—A. No, I do not think there is any division except with respect to Tuckett, and with respect to the jobbing companies; our policy has been not to take into income what we receive from them as profit, because of the nature of the business. We think that is the conservative thing to do. You think you might lose, do you; next year the jobbing companies might lose?—A. Yes.

Q. So you don't really know whether there is a profit or not; you just leave that alone to see how long you can get along without it?—A. Not always, we sometimes will declare it into the company, but we will not take it in as our income, we will set it up as a reserve against investments.

The CHAIRMAN: I think what Mr. Ilsley is concerned about, Mr. Miller, and I confess it gives me a little difficulty to understand, how you can take from a subsidiary a payment ostensibly as a dividend on stock held, and not take it into your income account in the full amount in which it is paid.

Mr. ILSLEY: Yes.

By the Chairman:

Q. Without questioning the wisdom of it, it looks to be a little odd.—A. Well, I think probably that we may have credited it into our income and set it back and made a reserve as a matter of form.

Q. There cannot be any criticism of any company setting up any reserve it desires.—A. In this way we take it back, Mr. Stevens, with the same result.

By Mr. Ilsley:

Q. You do not know what the advantage is of taking it back out of the dividends from that particular company rather than taking a lump sum out of your income; you do not know whether there is any advantage in that or not?—A. No, we eventually never considered it that way.

By Mr. Sommerville:

Q. Is not this one of the advantages, Mr. Millar, that you take into your income account only that portion which you treat as income and on that you pay income tax?—A. No, it has no bearing on that at all.

Q. It has no bearing on that at all?—A. No, sir, not at all.

Q. Perhaps I may follow this through, the next year, for the year 1933, you received from the Tuckett Tobacco Company $300,000 less amount carried to reserve $75,000, and carried forward into income account $225,000?—A. Yes.

Q. And you showed in that year a total income from these various sources of $5,670,176.60?—A. Yes.

Q. That includes the $225,000?—A. Yes.

Q. But does not include the $75,000 set aside for reserve?—A. Yes.

Q. And then your auditor says:

> Provision has been made for Dominion Income Tax on the profits for the year, the amount being arrived at as follows:
>
> Net profits for the year, $5,670,176.60.

A. Yes.

Q. Exactly the figure that I have indicated to you, not including the amount that is held out for reserve?—A. Well, I am not intimately familiar with that phase, but it certainly was not done with any such intention.

Q. It may be quite within the provisions of the Income Tax Law, Mr. Miller, I am not raising that question; we are just trying to get an explanation for it.

Mr. ILSLEY: That seems to be the reason.

By Mr. Sommerville:

Q. You see, Mr. Millar, the only point I am interested in there is to ascertain whether the declared profit of $5,670,176.60 is the exact profit for the year, or whether to that there should be added something else?—A. Well, the accountants have stated that was so, have they not?

Q. Yes, but the accountants have deducted $75,000 from the dividends received from the Tuckett Company in one year, and they deducted $325,000 in another year and have not carried that into the profits of the year.—A. Just a minute, please. As I understand it, we do not make a consolidated income statement for taxation purposes, and the Tuckett Company make their own tax statement and pay their own taxes, and dividends received from the company under those circumstances, I understand, are not taxable. I do not see frankly that it has any bearing on it, Mr. Sommerville.

Mr. ILSLEY: That may be correct. I thought we restored the principle of double taxation a year or two ago? I may be wrong about that.

By Mr. Sommerville:

Q. In any event, Mr. Miller, this is the practice that has been adopted?—Yes.

Q. The auditor's statement reads:

> Provision has been made for Dominion income tax on the profits for the year, the amount being arrived at as follows:
>
> Net profits for the year, $5,570,176.60.

Which is the amount that comes from page three, trading and profit and loss account for the year ending December 31?—A. Statement two, is it not.

Q. I beg your pardon, I am looking at 1932. Then too, you will find that from that they have deducted a number of items?—A. Yes, sir.

Q. Including the dividends received from other companies?—A. Yes.

Q. And from the $300,000 received from Tucketts you will observe they have deducted the $75,000; that is carried into the special reserve?—A. Of course, the $275,000 had previously been included in the $5,670.176, and for taxation purposes he is perfectly right.

By the Chairman:

Q. He already having paid taxes on account of the Tuckett Company?—A. Yes.

By Mr. Factor:

Q. You are taking a share of the profits of the Tuckett Tobacco Company; you were entitled to the dividends of the Tuckett Tobacco Company?—A. Yes.

Q. Then will you explain this to me: For the year 1931 the net profits are shown as $729,016. You disbursed under preferred and common dividends $290,000, leaving a balance of $490,016; and then it shows a surplus of $733,682. What does that mean?—A. That remains with the Tuckett Company.

Q. In other words, the Tuckett Company had, in the year 1931, an undisbursed or undistributed surplus of $2,176,698?—A. I have not the exact figure, but some such figure as that.

Q. And in the year 1932 they had an undisbursed surplus of $2,469,643?—A. Yes.

Q. And in the year 1933 an undisbursed surplus of $2.026.551. What is your policy, you let that surplus remain in the Tucket Company?—A. Up till now, yes, sir.

Q. That is all accumulated profits?—A. For years gone by, yes, sir, a good many years.

Mr. Sommervile: What is the total, say to the 31st December, 1933?

Mr. Factor: The total of the three years that I have here is approximately over six and a half million dollars.

The Witness: Oh, no.

Mr. Sommerville: Undisbursed?

Mr. Factor: Oh, the undisbursed surplus at the end of 1933 was $2,026,551.

By Mr. Sommerville:

Q. Yes, and what is the undistributed surplus in the Tuckett Tobacco Company at the end of last year?—A. I have not the figure.

Q. In which you hold the enttire amount of common stock?—A. I have not the figure sir, but I can confirm it later.

Q. Perhaps, Mr. Millar, you could give us the undistributed surplus at the end of December, 1933, for each of those companies?—A. All right, sir.

Q. The National Tobacco Company, the B. Houde Company, and the Tuckett Tobacco Company?—A. Yes.

Q. And the other companies, the General Cigar Company, The Imperial Tobacco Sales Company, and the Imperial Leaf Tobacco Company.

Mr. Factor: And the Andrew Wilson Company.

By Mr. Sommerville:

Q. And the Scales & Roberts Company?—A. Yes, sir.

Q. The Andrew Wilson Company?—A. Yes, sir.

Q. Which you own and control?—A. Through the General Cigar Company, yes.

Q. And the Fortier Company?—A. Yes, through Scales & Roberts.

Q. And the Punch Cigar Company?—A. Yes, sir.

Q. Which you own and control through the General Cigar Company?—A. Yes, sir.

Q. And what other companies are there?—A. James Craig, Limited.

Q. Of Halifax?—A. No, Hamilton, Ontario.

By Mr. Factor:

Q. And John Erzinger Limited, Winnipeg and Saskatoon?—A. Yes.

By Mr. Sommerville:

Q. What about Liggett & Myers Tobacco Company of Canada?—A. Yes, sir.

Q. Are they owned directly by the Imperial Tobacco Company or through one of these others?—A. Which is that?

Q. The Liggett & Myers Tobacco Company of Canada?—A. Directly, sir.

By Mr. Factor:

Q. May I ask—I may be wrong in this—did your company, or the United Cigar Stores own the Gordon Tamblyn Drug Stores?—A. No, sir.

Q. Never owned them?—A. The Imperial Tobacco through maybe the Metropolitan Tobacco Company may have originally, but it was sold several years ago.

Q. But the Imperial Tobacco Company did own that concern through the Metropolitan?—A. Either that or through the United Cigars.

Q. For how long?—A. Oh, for several years, four of five years, maybe.

Q. And you have disposed of your interests?—A. Yes, sir, three or four years ago.

Q. Can you furnish a statement to Mr. Sommerville of your profit and loss account in connection with the operation of the Gordon Tamblyn Stores?—A. You mean, under our direction?

Q. The profit and loss account during your operation?—A. Well, we will give you what we have, sir.

Mr. KENNEDY (*Peace River*): In regard to this amount of $800,000 paid over by the Tuckett Tobacco Company to the Imperial in 1931, I think it was, there is $475,000 taken over as income, and that apparently was part of the sum on which the Imperial paid income tax.

Mr. SOMMERVILLE: The Imperial paid income tax apparently on $475,000.

By Mr. Kennedy (Peace River):

Q. The point I am interested in is this, if the Tuckett Tobacco Company paid income tax on its own profits, why should the Imperial pay income tax on the $475,000; if it paid on the $475,000 why not on the $800,000.

Mr. SOMMERVILLE: I am asking the same question.

The WITNESS: We do not pay on the income on any of the dividends received from any of the subsidiary companies.

By Mr. Edwards:

Q. It already has been paid, Mr. Miller?—A. Yes, sir.

By Mr. Sommerville:

Q. Look at your financial statement for 1932.—A. 1932?

Q. Yes, 1932.—A. Yes, sir.

Q. On page 2, your net profit for the year is shown at $5,471,175.08?—A. Yes, sir.

Q. And added to that are certain items that are included, bringing your total profits up to $6,974,260.04?—A. Yes, sir.

Q. And from that there are deducted certain amounts?—A. Yes, sir.

Q. For taxation purposes?—A. Well, deducted in arriving at the tax.

Q. At the taxable amount?—A. Yes, sir.

Q. And the amount that is deducted, or at least one of the amounts that is deducted is $475,000?—A. Yes, sir.

Q. And the reason that that is deducted, you say, is because it was included in the statement of your income in arriving at the profit?—A. That is right. Maybe I can make it clear in this way. The $800,000 is the amount of dividends received. Now, dividends are not taxable. The Tuckett Tobacco Company paid its own tax, and we set up a reserve of $325,000 and charge it to income, so that it left a net difference in income of $475,000. Now, in order to arrive at the amount—from the Imperial Tobacco Company's point of view—that is taxable, whatever amount this was included in that income should be deducted, therefore, the amount is $475,000.

By Mr. Kennedy (Peace River):

Q. The Imperial Tobacco Company did not pay income tax on this $475,000? —A. No, sir.

By Mr. Sommerville:

Q. Nor on the $325,000, since the Tuckett Tobacco Company had already paid it?—A. Yes, sir.

By Mr. Ilsley:

Q. What is the reason for doing this, for deducting $325,000 from your income and setting it up as a reserve from the dividends of a particular subsidiary company? Why do that rather than take an appropriation for reserve out of your income as a whole? Is there any reason for following one practice rather than the other? What is the reason for it?—A. In our judgment, it was conservative financing. We have got, as you say, a certain amount paid by the Tuckett Tobacco Company as dividends, and we thought it was conservative business not to take the full amount of the dividends but to set up a reserve, and that was the method used to do it. I suppose we just did not consider your method—

Q. It is not my method, but it is the natural method, I would think. You did the same thing with your jobbing companies?—A. Yes.

Q. Well, does the appropriation of a certain amount for reserves out of dividends from particular companies have anything to do with the prospects of those companies, the hazard of carrying on the business of those particular companies?—A. Yes.

Q. Then that would be the reason?—A. There is always a hazard, sir, in any investment.

Q. I know, but has this particular accounting practice anything to do with the hazard of the company in respect of which you make the deduction as a reserve, or has it not?—A. Well, let me be sure I understand your question, I want to be perfectly honest.

Q. I hope I do myself, but what I understood you to say was, that in your jobbing companies and in this Tuckett Tobacco Company you have certain dividends which normally would be put in your books as income?—A. Yes.

Q. The whole of which would go in as income. Now you put it in as income, but you take it out again, or part of it; instead of taking a lump sum out of your total income, and put it aside as reserve, you take part of that which you get from a particular company and set it aside as a reserve instead of putting it in your income account and I was just wondering what the reason was. Is this the reason, that perhaps you get a substantial sum as dividends from the Tuckett Tobacco Company in one year and that next year there might be a loss and, therefore, you take part of that substantial sum which you get in dividends and put it aside as a reserve?—A. Yes.

Q. And I am wondering whether that particular practice is pursued in reference to a particular subsidiary company because of the possibilities of loss in the carrying on of the business of that company?—A. Well, I would not say there would be any special reason to assume that there would be any loss in the Tuckett Tobacco Company any more than any other business; but as to why we do it that way, why, it seems to me that it is very difficult if you have got investments in subsidiary companies, or what not, to gauge definitely what they might be worth. You want some yard stick to measure as to how the business is being carried on, in order to set up something, and it seems to me to be a conservative way of doing it, in a particular investment to put part of that aside; it seems to be a perfectly justifiable way of doing it, and we have felt that way about it.

By the Chairman:

Q. Mr. Miller, you see what the committee by its order of reference is particularly concerned in is the spread between what is received by the grower and what is paid by the consumer, and the committee's duty is to determine if, in its opinion, that spread is justified, and also to break down the various charges that enter into it to see to what degree there is equity in the distribution of it among all those concerned. I simply bring that to your recollection because that is the object of this committee according to its order of reference. If company A—and we will leave your company for the moment out of the picture—owns companies B, C, D, E, and F, and in its operation of these subsidiary companies it makes unusually high earnings which are not fully disclosed in its own profits, it might very well be that there would be buried there and not disclosed to the committee, shall I say, profits far beyond what the service warranted which, if discovered by us, would indicate to us that the grower on the one hand is not getting a fair share, or perhaps the consumer on the other hand is paying too much. Therefore, it is of great importance to the committee that we should know not only the officially disclosed gross profit or profits but how that profit is built up, and that is the object that we have in pursuing this matter in this way. Therefore, what Mr. Ilsley is speaking about and enquiring about is very important to the members of this committee. For instance, if the Tuckett Tobacco Company had in its operation as a separate entity set up a reserve, then paid you a profit of $800,000 in one year, out of which you set up a reserve of $300,000 and took $400,000 into your earnings it might be—I am not saying it is—that a careful examination of that might disclose a rather abnormal amount carried to reserve?—A. Quite.

Q. And it is very essential, I think, to the committee that such should be fully disclosed, of necessity. I am not criticizing, because I think the Imperial Tobacco Company in their brief is showing a willingness to assist the committee in its effort, but I do not want you to feel that we are unjustly pursuing the point, because I really think that point is of importance to the committee.—A. All right, sir, I am perfectly willing to give you all the information we have.

The Chairman: We have before us the Tuckett statement.

By Mr. Senn:

Q. In regard to that amount of $325,000—I am speaking now of the Tuckett Tobacco Company—was it ear-marked for a special purpose, or was it set up in the ordinary cash reserve?—A. No, it was set up as a reserve.

Q. It was not ear-marked for the use of the Tuckett Tobacco Company?—A. No.

By Mr. Sommerville:

Q. Altogether there is an accumulation of $2,000,000, quite apart from the amount you were setting up as reserves?—A. Oh, yes.

By the Chairman:

Q. It would not look, Mr. Miller, as if there was any need to set up a reserve against the investment in Tuckett's?—A. Well that, of course, Mr. Chairman, is a matter of opinion I suppose, but you will see we paid $........ for the stock that has now a par value of two and a half million dollars.

By Mr. Sommerville:

Q. And in which there is already a surplus and accumulated reserves of $2,000,000?—A. Even so, sir.

Q. Which belongs to you?—A. Well, of course, the preferred shareholders have the first assets.

By Mr. Senn:

Q. I would like to ask one more question in regard to the amount you say you are holding in the Tuckett Tobacco Company. You said two and a half-million?—A. You mean surplus?

Q. No, you said your holdings were two and a half-million?—A. Yes, two and a half-million, par value of the whole amount, common stock.

Q. At page 75 of the report you went over this morning, you estimated your holdings in the various companies as $2,431,000 odd; how do you account for that?—A. We advised previously that we bought the difference with cash.

The CHAIRMAN: You must add to that, Mr. Senn, a sum paid out in cash for the balance of the Tuckett shares, about 12,000 or 13,000. That is not referred to here.

Mr. SOMMERVILLE: This only includes the amount paid in shares for Tuckett's shares.

By Mr. Sommerville:

Q. With a view to our being able to follow that through, would you be good enough to have the unabridged reports of your auditors for Tucketts and the National Tobacco?—A. Yes.

Q. The General Cigar, and those other subsidiaries that you have mentioned?—A. Yes, we will be glad to.

Q. And have them submitted to the committee?—A. We will be glad to.

Q. Perhaps you will be good enough to tell me if there are any other companies that you have or control. You have, first of all, your Imperial Tobacco Company?—A. Yes.

Q. Then recently, within the last couple of years, you turned your sales department over to the Imperial Tobacco Company?—A. Tobacco Sales Company.

Q. The Imperial Tobacco Sales Company?—A. Yes.

Q. And you turned your leaf purchasing department over to the Leaf Tobacco Company, was it?—A. Yes.

Q. Let me get that right?—A. The Imperial Leaf Tobacco Company.

Q. Those are like organizations that are carrying on activities within your own office?—A. Yes.

Q. Of the Imperial Tobacco Company?—A. Yes.
Q. And through the Imperial Tobacco Company. You function through those two organizations?—A. That is right.
Q. Then you have manufacturing companies that manufacture tobaccos, cigars and cigarettes, some of them?—A. Well, Tuckett does.
Q. Tuckett does; and the pipe tobaccos?—A. Yes.
Q. And the cut tobaccos?—A. Yes.
Q. Then you have the chain of various distributors or jobbers across the country?—A. Yes.

By Mr. Factor:

Q. The Tuckett firm also control the Tobacco Products Corporation of Canada?—A. Yes. That is not an operating company, though.

By Mr. Sommerville:

Q. It is a holding company?—A. Well, it is just a small company, a dead company really, kept alive by the trade mark.
Q. Then you have this chain of jobbers across the country?—A. We have a few.
Q. Have you none in the Maritimes?—A. No, sir.
Q. I was under the impression you had one in Halifax or St. John?—A. No.
Q. You have them in Montreal, Toronto, Winnipeg and Hamilton?—A. Yes.
Q. Then in addition to that you have the retail stores, the United Cigar Stores?—A. Yes.
Q. About how many stores are there in the United?—A. About 175 stores.
Q. About 175 stores?—A. Yes, about that.
Q. They cover from coast to coast?—A. Except in the Maritimes.
Q. There are none in the maritimes?—A. No.
Q. You don't own any retail outlets in the maritimes?—A. No.

By Mr. Kennedy (Peace River):

Q. Have you any farms for producing tobacco?

By Mr. Sommerville:

Q. Oh, you have some farms for producing tobacco?—A. No, sir.
Q. That is not profitable. I was wondering whether you were leaving anything out of the circle?

Mr. FACTOR: That was a leading question.

Mr. SOMMERVILLE: Well, Mr. Kennedy wanted to get him into the same class as the farmer, He wanted to feel the Imperial was with him.

By Mr. Sommerville:

Q. Will you be good enough to tell me what were the profits of the Imperial Tobacco Company, the consolidated profits, during the past five years?—A. Of the Imperial Tobacco Company?
Q. Yes?—A. For the past five years?
Q. Yes?—A. Consolidated?
Q. Yes?—A. You mean our own statement?
Q. Your own operations, yes?—A. I didn't know you asked for it. It is a matter of public record. I have not got it handy here. It has been published several times.
Q. We would like to get it on the record at this time in such form as you have it?—A. I don't think I have it.

Q. Mr. Lane will probably have it?—A. For the year 1929, to September 30, $5,862,207.73.

Q. That is from when?—A. For the twelve months ending September 30, 1929.

Mr. KENNEDY (*Winnipeg*): Mr. Sommerville, let us be sure just what that is.

By Mr. Sommerville:

Q. This is the profit of the Imperial Tobacco Company?—A. Yes.

Q. Including such dividends as may have been received during the year from the subsidiaries?—A. Yes.

Q. For 1929 it was what?—A. $5,862,207.73.

Q. And for 1930?—A. For 1930—fifteen months is the next period, to December, 1930, $8,153,638.04. If you care to have it, it is stated for the twelve months, to December 31st.

Q. It is all right as it is. You changed your fiscal year?—A. Yes.

Q. And that fifteen-months' period covers the amount you have just given us?—A. Yes.

By Mr. Kennedy (Winnipeg)

Q. That fifteen months ends on what date?—A. December 31st.

Q. Of 1930?—A. Yes. 1931, $5,914,079.47; 1932, $5,471,175.08; and 1933, $5,670,176.60.

By Mr. Sommerville:

Q. In arriving at your profits, of course you set up a certain reserve for depreciation, etc.?—A. Yes.

Q. And in your balance sheet for December 31, 1933, I observe that you carry your real estate and buildings at cost, $1,575,994.49?—A. Yes, sir.

Q. And you carry your plant, machinery, furniture and fittings at cost, $2,707,015.29?—A. Yes.

Q. Together, those two amounts represent a sum of $4,282,000 odd?—A. Yes.

Q. Against that $4,282,000 you have a reserve for depreciation of $3,461,-203.52?—A. Yes.

Q. In other words, your depreciation set up is about 75 per cent?—A. A little more than that, is it not?

Q. A little more than that?—A. Well, I don't know.

Q. Well, say 80 per cent; depreciation which has so far been set up out of your profits against these buildings represents 80 per cent of the value of the buildings, plant and machinery?—A. Yes, about that.

Q. That includes land as well, in that valuation?—A. Yes.

Q. So that it would look as if your buildings have been almost fully covered; buildings and plant have been almost fully covered by the reserve set up out of profits for building and machinery?—A. I don't think so entirely, no, sir.

By Mr. Ilsley:

Q. Can you separate it into land and machinery?—A. It is pretty difficult to do. In some cases it may be separated.

Q. You have separated it for some purposes, I fancy—A. Yes, for insurance purposes.

Q. You probably have a depreciation account more than enough to cover everything that depreciates, have you not?—A. Well, that again is a matter of opinion. Take machinery, that is very doubtful in many ways. There is new machinery being developed all the time.

Q. From these figures it would appear that you have as much money as all your assets that can depreciate; you have it all covered by depreciation account now?—A. Well, it is a matter of opinion.

Q. I don't just think it is a matter of opinion. If you could separate land from the assets that do depreciate, we could tell you that ourselves?—A. I would be glad to give you any statement you wish.

Q. Land does not depreciate, does it?—A. Well—

The CHAIRMAN: Is it not separated there? I think it is separated. Just a minute, Mr. Ilsley, the value of the lands and buildings is shown at $2,700,000.

Mr. SOMMERVILLE: No.

The CHAIRMAN: No, not buildings. That is machinery.

Mr. SOMMERVILLE: Yes.

The CHAIRMAN: The lands and buildings are not separated?

Mr. ILSLEY: No.

The CHAIRMAN: However, your reserve covers entirely plant, machinery, furniture and fittings, plus about $700,000 to apply against $1,500,000 of buildings and lands.

Mr. ILSLEY: Yes. It might be an interesting fact if we had that.

By the Chairman:

Q. Apparently it would cover virtually the whole value of your buildings, plant and machinery?—A. I might make a statement on that. I think you will find it will figure out that on any obsolete or out of date machinery, there is 100 per cent provided; and 80 per cent of ordinary equipment. We provide for the buildings according to the regular $2\frac{1}{2}$ per cent for regular buildings. I am speaking purely from memory now, but I don't think they will show more than 50—somewhere between 50 and 60 per cent of their cost value, maybe a little more. But the land value, of course, is not a very appreciable amount.

By Mr. Ilsley:

Q. You are keeping on setting aside a certain per cent on the original cost value for depreciation, are you?—A. Where we have reached 80 per cent on our machinery, at the present time it is not our policy to continue to set up a reserve.

By Mr. Sommerville:

Q. You have got machinery in here at cost?—A. Yes.

Q. And on the 100 per cent on machinery that has already been written off, you will still write in depreciation?—A. Not into our profits. We might write it in and take it back, though. It is not added to our reserve.

Q. Have you ever taken anything off that reserve?—A. Yes, I think there was. Anything that is destroyed is charged to that.

Q. Looking at Schedule B of your statement for 1933, you will observe that you have plant, machinery, furniture and fittings at cost, amounting to $2,707,015.29. It is shown in the balance sheet at that figure?—A. Yes.

Q. Now then, if you look at Schedule B you will find that the $3,461,203.52 applies entirely to buildings, machinery and plant?—A. And office furniture and fixtures, depreciated merchandise and machinery.

Q. You will observe also that with respect to machinery modernizing—you call it—you have set up an account of $2,707,000 – $2,374,596?—A. That is right, sir.

Q. So that the only amount of your entire machinery that has not been covered is a sum of about $350,000?—A. I think that is right, sir.

Q. And as against other machinery you have set up a depreciated merchandise of $50,000?—A. Yes, sir.

Q. And you have set up a machinery special reserve account of $4,727—later you wiped it out?—A. Yes.

Q. And on depreciation on office furniture and fittings you have set up a reserve of $119,025.85?—A. Yes, but that is included in plant, machinery, furniture and fixtures.

Q. Yes, it is included in your balance sheet, as coming under that $3,461,000?—A. Yes.

Q. The amount the company have put as a separate item in your schedule B?—A. Yes.

Q. That would indicate that your office furniture, fittings, etc., have been 100 per cent covered by the depreciation of $119,000?—A. I do not think it has.

Q. At any rate, out of the profits of your company you have set up these reserves?—A. Yes, sir.

Q. And then in addition to this you have set up some other reserves, you have set up a general reserve of $803,000?—A. Yes, sir.

Q. What is this general reserve for?—A. It goes back to the formation of the company in about 1912, it was set up out of surplus. I do not know except as a general reserve, it is just a special reserve.

Q. It is a general reserve?—A. Yes, sir.

Q. Then we have included in reserve this $400,000 that you have set apart from the Tuckett dividends?—A. We deducted that from the value of investments in subsidiary and associated companies.

Q. Oh I see, that is to say that is where the reserve is; that is to say instead of setting up $400,000 on the credit side of your ledger statement, that is there for contingencies?—A. Yes.

Q. You deduct that from the value of investments in subsidiary and associated companies?—A. Yes.

Q. At cost or under?—A. Yes.

Q. And that brings down the cost of these investments in your subsidiary companies?—A. Yes.

Q. From time to time?—A. As referred to in schedule F, which gives the full particulars on that.

Q. And in that year there was deducted from your investments in subsidiary and associated companies the sum of $595,418.03?—A. Yes.

Mr. Ilsley: What did they do all this for?

Mr. Sommerville: That eventually writes down all the assets to nothing.

Mr. Ilsley: I know, they get rid of their investments entirely.

Mr. Sommerville: Yes.

Mr. Ilsley: What are they paying?

Mr. Sommerville: I do not know, ask Mr. Miller.

The Witness: It is only conservative accounting from our point of view, sir.

The Chairman: Then that $500,000 of surplus was deducted from earnings, and written off these various investments.

The Witness: Set up as a reserve against them and deducted in that balance sheet.

The Chairman: I am sorry, I cannot follow you there, it does not show as a reserve in your account sheet. If it is set up as a reserve, it should show in the credit side of a balance sheet as a reserve from assets. Instead of that it is deducted in schedule from the assets. The question arises, have the assets shrunken in value during the year the amount of that deduction. For instance,

we will take Tuckett's, from which this $500,000 comes; there is no question of shrinkage there?

The WITNESS: No.

By Mr. Sommerville:

Q. In the list of your investments, Mr. Miller, as of the 31st December, 1933, shown in your statement you have the National Tobacco Company Limited 400,000 shares at a par value of $5 each carried forward at a cost of $50,200?—A. Yes, sir.

Q. So that the National Company investment of $50,200 is one of the items from which $595,418 is deducted at the end of the year?—A. It might apply to any in that.

Q. It might apply to any of them?—A. Yes.

Q. And I presume you follow the same policy in respect to each investment?—A. I don't know what you mean.

Q. They are all treated in the same manner?—A. In what respect.

Q. By way of your writing off, or deducting from them the amount of the reserve you show here?—A. No, only the ones we set up as reserve.

Q. Have you anywhere an independent appraisal of the value of your lands and buildings?—A. We have an appraisal of buildings, it is not altogether independent, it is made by some of our own engineers, I do not think we have an appraisal of land.

Q. You have an appraisal of building, plant and machinery?—A. Not on machinery or plant, no sir; we have an inventory of it, but we have no appraisal of it. For insurance purposes, I presume?—A. Yes.

Q. And that is based on cost?—A. On cost, yes.

Q. Plus additions I presume by way of repairs from time to time?—A. No, all repairs are charged off.

Q. All repairs are charged off the current account?—A. Yes, sir.

By Mr. Ilsley:

Q. What is the reason for this practice, for your wishing to get rid of anything on your books showing that you have an investment in subsidiaries? You are gradually writing down on your books your investment in subsidiaries by appropriating part of your dividends from your subsidiaries as reserve, and not showing it as a reserve, but just reducing the amount on your books of your investments in these subsidiaries; would that be a sort of " innocent " for one to ask?—A. Anyone might ask it.

Q. Why do you do that?—A. For conservatism sir.

Q. What advantage is there in doing that?

Mr. FACTOR: Not in the political sense, I take it, Mr. Miller.

The CHAIRMAN: Treated that way, it would be a liberal reserve.

The WITNESS: Frankly I do not know how to answer you any differently, Mr. Ilsley. It may be we are too conservative. I think you recognize that the price that we paid for the Tuckett Tobacco Company is a tolerable amount of money, and I think if we were satisfied to take in a reasonable amount of the dividends that we get from them—that is, of course, it would all go into the profit account, and then part of it is taken back as a reserve. It was only a matter of conservatism, creating these reserves against these large amounts of investment.

By Mr. Ilsley:

Q. It simply makes your book look different. It would appear at first blush that your return from that company is at a lower amount than it is; secondly, it would look as if your investment in that company was much smaller than it is;

it just looks different, it makes a difference in the way the books look to the casual observer; that is as far as I can see. I am wondering why you do it, is that your reason for doing it?—A. Yes, that is our reason for doing it. The only reason that I could think of sir; it has been done now for several years. I cannot think of any other reason.

Q. I do not believe that you just mean that answer to that question. I was asking you if you were doing that purposely to give the impression that your investment is smaller than it is, or that your dividends are smaller than they are?—A. I can answer that, absolutely no, sir.

Q. You answered it yes a minute ago?—A. Did I; I did not understand you, sir.

Q. I knew that, and that is the reason I repeated it.—A. I did not understand you, I am sorry.

Q. I did that because I felt you did not understand the question. I am just asking you, what is your reason for this. To the observer it looks like a peculiar juggling of a part of the dividends and transferring them from one account to another for some strange reason that is not apparent to me?—A. Well sir, there is no intention of that.

By Mr. Factor:

Q. What will happen if that method is not followed and you show these dividends in the ordinary profit and loss account?—A. What would happen?

Q. Yes, how would your statement appear?—A. Our statement would appear with increased profits.

Q. And among your assets your investment in subsidiary companies would be higher?—A. Yes.

Q. What great advantage do you gain by doing that, or do you gain an advantage?—A. I do not know whether we gain any advantage or not. It is just the same as you might criticise, I suppose, our setting up any reserve for machinery, or reserve for plant.

Q. That is a different thing?—A. The only difference is a matter of opinion, I would suggest. When you have a big lot of investments in companies, it seems to me that it is conservative to make such a provision as that; that is our opinion.

By Mr. Kennedy (Winnipeg):

Q. Whichever way you set it up it would reflect the same results in operation—I mean whichever system?—A. If we did not set up that reserve it would increase our profits.

By Mr. Factor:

Q. That is the point.—A. I think it would be all the same.

The CHAIRMAN: There is no conceivable objection at all, Mr. Miller, in setting up reserves. Everbody I think will agree with that. But I think there is a legitimate curiosity on the part of the committee to find out to what extent these reserves have lessened the disclosed profit, so that we may estimate in our own opinion the fairness of the cost in between the grower, as I said a moment ago, and the consumer. That is the sole object in this matter.

The WITNESS: Mr. Chairman, then I would suggest that these reserves, such as the reserves for the purposes you have suggested, any of these reserves that we have set up from the Tuckett Tobacco Company should be added back in taking that into account.

Mr. FACTOR: Does the consolidated profit and loss account include these reserves, or are they excluded from it?

By Mr. Sommerville:

Q. No, they are not included, Mr. Miller. That is the accumulation of your reserves for the year?—A. Well, not for the year, for the period up to that date, up to December 21st; that is not for the current year, that is the accumulation up to that date. I may be mistaken.

Q. But at any rate, that reserve is deducted before your profits are shown?—A. Yes.

Q. So that if you were showing your real profits you would add that $595,418.03 to the profit statement?—A. Over the period of years.

Q. For the period it had accumulated?—A. Yes, sir.

Q. And if $325,000 of it came out of dividends in one year that would be added to the profits of that year?—A. Yes, sir.

Q. And that $75,000 for the second year, that would be added back?—A. Yes.

Q. That would be the system that would be followed to get the correct amount?—A. Yes, sir.

Q. Now then, will you just tell us, Mr. Miller, on page 2—this is a statement of profit and loss for the year ended December 31st, 1933, and in it I see "Surplus brought forward from last year $7,875,058.91." What is that, Mr. Millar, where does that come from? Does that come from the previous year?—A. Yes, sir.

Q. That is the previous year's surplus?—A. Profit and loss account.

Q. That is the surplus of the previous year?—A. Yes.

Q. Well then, the next item is net profits for the year after deducting all charges and expenses for management and providing for income war tax, $5,670,176.60?—A. Yes, sir.

Q. Now, can you tell me what was deducted for all charges and expenses for management, etc., where will I find that item?—A. I think we gave you a statement.

Q. And as well for income war tax, so as to get that amount?—A. It is all disclosed in the statement, I think.

Q. What page is that?—A. Page three.

Q. All right.—A. Statement three, page three.

Q. Statement number three?—A. Section number five.

Q. That shows, Mr. Miller, how the $5,670,176.50 is made up?—A. Yes.

Q. But what I am asking you is, what amount must be added to that for the income tax provision and all other charges that you have already deducted from your profits?—A. If you follow this through from page one, right through two and three to the conclusion. it shows an analysis there of all expenses. On page three there is provision for income tax for the year 1933, shown at the top there, section four, of $631,678.72, as having been provided out of those profits prior to arriving at the final figure.

Q. Where is that?—A. Section 4 on page 3.

Q. Oh, yes.—A. That is the amount that has been deducted in that year, the upper left-hand side.

Q. That is the income war tax, 1932?—A. 1933.

Q. Oh, yes.—A. There was an adjustment the previous year of $43,181.99, and a provision for the current year of $631,678.72.

Q. Where do you begin with your gross profit, show me that.—A. We gave you a statement, sir. This is involved because of the Imperial Sales Company—we made up a statement and submitted it to you a week or two ago. Here is a copy.

Q. Thank you.—A. That statement is just consolidating the Sales Company and the Leaf Company.

Q. That is a consolidated statement of the Imperial Tobacco Company, the Imperial Leaf, and Imperial Sales?—A. Yes, and shows the available profit, and shows sales value gross of $36,154,702.76?—A. Yes, sir.

Q. And from which there is deducted costs of raw material, labour, overhead, commission, amalgamated sales tax, a total of $27,633,445.90?—A. Yes, sir.

Q. Which leaves an available profit of $8,521,256.86?—A. Yes, sir.

Q. As the gross profit for the year?—A. Before selling and advertising.

Q. Before selling and advertising expenses are taken off?—A. Yes, sir.

Q. Then your selling expenses, a deduction of $1,169,135.28?—A. Yes, sir.

Q. And your advertising expenses, $2,673,666.04?—A. Yes, sir.

Q. In other words, there is a total deduction for selling and advertising of $3,842,801.42?—A. Yes, sir.

Q. And that leaves you a departmental profit of $4,678,455.44?—A. Yes, sir.

Q. Then to that is added certain items amounting to $1,461,628.55?—A. Yes, sir.

Q. Making a total of $6,140,083.99?—A. Yes.

Q. And from that there is deducted certain items of legal expense, share transfer department expense, trademark and patent expense, income war tax, income war tax adjustment, bonus to officials adjustment 1932, and bonus to officials 1933, a total of $1,096,704.46?—A. Yes, sir.

Q. And that brings you a net income of $5,043,379.53?—A. Yes, sir.

Mr. KENNEDY (*Peace River*): Have you that detail of bonus to officials?

Mr. SOMMERVILLE: Yes, we have the details, Mr. Kennedy.

By Mr. Sommerville:

Q. And to which are added dividends for the year amounting to $626,797.07, making a total of $5,670,176.60?

By Mr. Factor:

Q. Is that the net after deducting the reserve?—A. Yes, sir.

By Mr. Sommerville:

Q. And then you add to that the surplus brought forward from last year $7,875,058.91, which make a total of $13,545,235.51. From that you deduct the dividends on preferred shares of $324,507.05, and the ordinary dividends for the final of 1931-32 of $1,653,930.60, and your ordinary dividend of $3,307,861.20, or total dividends of $5,286,298.85, which leaves you with a balance or surplus of $8,258,936.66. And you have made then provision for dividend on preferred shares for three months of $124,450, and that leaves undivided profits at the end of 1933 of $8,138,486.66?—A. Yes.

Q. Now, I observe that you deducted last year for ordinary dividends, final 1931-1932, an amount of $1,653,930.60. What was the meaning of that? Were those dividends not paid in 1931-32?—A. They were paid in 1934.

Q. That is, out of the profits of last year?—A. No, they were paid in 1933 out of the profits of 1931-32, out of surplus; they were paid in 1933.

Q. In other words, last year what was the amount of the dividend?—A. The final dividend is 3½ per cent.

Q. And then your ordinary dividend is 7 per cent?—A. Seven per cent per annum, yes, sir.

Q. And that meant that last year you paid 10½ per cent out of the profits of last year?—A. Yes, sir.

Q. Which took up the 3½ per cent of the 1931-32 period, that fifteen month period?—A. No, the fifteen-month period was prior to that.

Q. Now, Mr. Miller, let me understand the functions of your Imperial Tobacco Company. The Imperial Tobacco Company manufactures the product and then it sells the product to the Sales Company, is that right?—A. Yes, sir.

Q. And the Sales Company then sell the product to jobbers of the trade?—A. Yes.

Q. And the Leaf Company in 1933 bought from the Imperial goods to the value of $31,127,381.23?—A. Well, I think it would clarify matters if I might explain, that the Sales Company and the Leaf Company are, as you have rightly stated before, I think, all held within the Imperial Tobacco Company's office, and in this statement which you have just read from that is the consolidated of the whole, as though they were one company, as if those three companies were one company, that is really the only way you gentlemen, we think, can get the proper picture of the Imperial Tobacco Company's operations. The Sales Company and the Leaf Company are included in that consolidated figure.

Q. Then you have not kept separate in that statement the profits made on the manufacture?—A. No, sir.

Q. And it is all reflected in this consolidated statement?—A. Yes.

By Mr. Factor:

Q. Have you got a statement of the total reserves of the subsidiary company, that is, the so called reserves?

Mr. SOMMERVILLE: No.

The WITNESS: On the statement, you will notice profit and loss account, balance as per account herewith $8,138,486.66, which is the same as shown by this statement $8,138,486.66.

Q. Yes.—A. What I mean is, they are all brought together for your convenience, sir. There is no undivided surplus in the Sales Company or the Leaf Company.

Q. In neither of them?—A. Neither one of them.

By the Chairman:

Q. Those are really departments of the parent company?—A. Absolutely. For internal management it seemed advisable to do that.

By Mr. Factor:

Q. But they are separate companies?—A. They are run as separate companies.

By Mr. Sommerville:

Q. But in the Leaf Company or in the Sales Company there is a special reserve set up for buildings, machinery, etc.?—A. Oh yes.

Q. And that is not the same reserve included in that reserve of the Imperial Tobacco Company's statement?—A. No, nor the assets; the assets are all separate.

Q. So that in the sales company which was organized in the year 1931—was it 1931?—A. Started in 1932.

Q. Commenced operations in 1932?—A. Yes.

Q. I see in the annual financial statement for December 31, 1933, that your real estate and buildings are shown at $490,085.07?—A. Yes.

Q. And your plant, machinery, automobiles, furniture and fittings at cost, $324,989.49?—A. Yes.

Q. That is about $814,000?—A. Yes.

Q. And against that, in the two years' operation, you have set up a reserve of $229,500?—A. Yes, they were transferred—whatever reserve applied to machinery and plant was transferred from the Imperial to the Leaf company

or the Sales company, either one. The reserve applicable to it was transferred to the company here.

By the Chairman:

Q. And deducted from the reserve in your main balance sheet?—A. Yes.

Mr. SOMMERVILLE: It would be reflected in that way.

The CHAIRMAN: No, it would be deducted.

By Mr. Sommerville:

Q. It was deducted, then?—A. Yes.

Q. From the large company?—A. Assets and reserves were both deducted from the parent company's figures.

Q. Now, with regard to the Leaf company, what happened?—A. The same thing applies.

Q. The same thing applies on the Leaf company?—A. Yes.

Q. So your real estate, buildings, plant and machinery are in at $988,000? —A. Yes.

Q. You have a reserve for buildings, machinery, etc., of $263,914?—A. Yes.

Q. The same thing applies there?—A. Yes.

By Mr. Kennedy (Peace River):

Q. Is that company owned outright by the Imperial?—A. Yes.

Q. There are no dividends paid?—A. Yes, there are dividends paid, but they are all included in that statement.

Q. In the consolidated statement?—A. Yes.

By Mr. Sommerville:

Q. Does that complete the circuit of your relationships with the companies in Canada that are owned or controlled by you? Is there any other company that you have?—A. None other than shown on that list.

By the Chairman:

Q. Does schedule "F" cover that?—A. I will see. I think so. Well, the Quebec Leaf Tobacco Company is owned by the B. Houde Company.

By Mr. Sommerville:

Q. Does that function in the same way with regard to the B. Houde Company as the Imperial Leaf functions with regard to you?—A. No, sir, they are an operating company; that is, in the sense that they sell this leaf tobacco in hands, that has been referred to.

Q. They sell the raw leaf in hands?—A. Yes.

Q. You are competing with yourself?—A. We would like to see if we could find out something about it, like to know what it is all about. It is mentioned here, Andrew Wilson and Punch are owned by the General Cigar Company; and the Dominion, Empire and American tobacco companies are dormant companies. I think except a couple that you have mentioned, Liggett & Myers Tobacco Company—

Q. Liggett & Myers?—A. And Dominion Tobacco Company.

Q. Liggett & Myers is mentioned here; you have $7,000?—A. I see a reference to G. Tamblyn Limited, one share of deferred stock, one dollar, but we have not got any voice in its management, don't get really any statements but public statements. I had overlooked that one dollar.

By Mr. Factor:

Q. You were to get out a statement of the amount realized from the operation of Tamblyns, the amount you have disposed of it for?—A. We will give you all we have on it. It has been a good many years ago, and I don't know what we have.

By Mr. Sommerville:

Q. Then, just to complete the picture of your relationships outside the country—you have given us the picture inside Canada—what are your relationships with the British American Tobacco Company? What is the connection?—A. Well, they are large holders of both our preferred and common stock. That is the only real relationship.

Mr. KENNEDY (*Winnipeg*): Can we settle that they are majority stockholders?

By Mr. Sommerville:

Q. Are they majority stockholders?—A. No, sir.

Mr. SOMMERVILLE: I presume that would hardly be necessary in a big company like that.

By Mr. Factor:

Q. Did you furnish Mr. Sommerville with the list of your shareholders?—A. Yes.

Mr. SOMMERVILLE: Yes, we have that.

By Mr. Sommerville:

Q. I think you told us that the British American control the Imperial Tobacco Company, don't they?—A. No, sir. I want to say right here that I have no connection whatsoever with the British American Tobacco Company. I have never been connected with them. I really know nothing about their affairs at all, except through the contact that we have with the few of their directors that we see.

Q. Are there any of their directors on your board?—A. Yes, two of them.

Q. There are two of their directors on your board?—A. Yes.

Q. And you say they have two officers in the United States?—A. Well, they have two directors in the United States.

Q. Are those two United States directors the directors that are on your board?—A. One of them is.

Q. One of them?—A. Yes.

Q. Have you not a direct connection with any of the companies which they own or control in the United States?—A. No.

Q. No connection?—A. No direct connection.

Q. No direct connection?—A. No.

Q. Well, your contact with them is very close, and that is why I want to give you an opportunity of just stating what the position was?—A. May I get your question?

Q. Perhaps you can tell me who is the representative of the British American in the United States?—A. Well, the director is Mr. George Cooper who is also a director on our board; and the other British American director on our board is Sir Hugo Cunliffe-Owen.

Q. He is president of the British American?—A. He is chairman of the British American Tobacco Company.

Q. He is chairman of the board of the British American Tobacco Company?—A. Yes.

Q. And what connection has he with you?—A. He is a director on our board.

Q. What connection has he with the Imperial Tobacco Company of Great Britain and Ireland?—A. None that I know of.

Q. You know nothing of that?—A. No.

Q. What is the connection between the British American, which has these companies all over the world, I think you told us— —A. Well, as I understand it.

Q. Well, you would know?—A. Only indirectly.

The CHAIRMAN: I think we all know that.

By Mr. Factor:

Q. Did you say that Sir Cunliffe-Owen has no connection with the Imperial Tobacco Company of Great Britain and Ireland?—A. Not to my knowledge.

Q. I may be wrong, but I assumed that he was director or chairman of the board of the Imperial of Great Britain?—A. Not to my knowledge.

Q. You don't know about it?—A. I think it is wrong.

By Mr. Sommerville:

Q. Who is president?—A. I don't know.

Q. Or chairman of the board?—A. I don't know, sir. It is a matter of public record, I think. I don't know him at all.

Q. Do you know the relations between the Imperial and the British American?

The CHAIRMAN: Which Imperial?

By Mr. Sommerville:

Q. The Imperial of Great Britain and Ireland?—A. Not of any real knowledge, beyond what I mentioned this morning.

Q. Are you aware of the fact that one-third of the Imperial of Great Britain and Ireland stock is held by the British American?—A. I have heard of such thing. I don't know to my knowledge. Oh, no, the reverse, a third of the British American held by the Imperial.

Q. A third of the British American held by the Imperial?—A. I have heard that. I don't know that. It was stated here, I think, in some other testimony, but I don't know anything about it.

Q. The Imperial of Great Britain is a very powerful organization over there, embracing a great many companies, is it not?—A. I think so.

Q. I presume you are aware that last year their profits in England were in excess of some $40,000,000?—A. I don't recall it.

Q. You never heard of it?—A. I have seen them, but I don't recall them.

Q. Well, there are some very large sums?—A. Yes.

Q. The British American profits were $27,000,000 or $30,000,000 last year, on their operations?—A. I could not name them. I don't recall them. It is a matter of record.

Q. How do you function with the Imperial of Great Britain?—A. We have no connection with the Imperial of Great Britain.

Q. No connection at all?—A. No, sir.

By Mr. Factor:

Q. There is another concern in Chatham, the British Leaf Tobacco Company; does that operate as a subsidiary of the Imperial Tobacco Company of Great Britain?—A. Gentlemen, as I previously stated, I have no contact with the British American Tobacco Company or the Imperial Tobacco Company of Great Britain, and I don't feel that I have any right to speak for them. I am perfectly frank. Anything I say is from hearsay. I have no knowledge, actual knowledge of their affairs.

Q. Have you any dealings with the British Leaf Tobacco Company of Chatham?—A. We have had dealings, yes, sir.

Q. You don't know the relation of the Imperial of Great Britain?—A. I think they are controlled by the Imperial of Great Britain. I have every reason to believe that, but I don't know it. I wish you to understand that.

By Mr. Sommerville:

Q. What is your relationship, if any, with the Canadian Tobacco Leaf Company?—A. None whatever, no connection, no financial connection.

Q. Has your company any financial interest in the Canadian Tobacco Leaf Company?—A. None whatever.

Q. Has the British American any financial interest in that company?—A. Not to my knowledge or belief.

Q. You are not aware of that?—A. No, sir.

Q. Have you any other connection or financial interest in any other leaf company in Canada?—A. No, sir.

By the Chairman:

Q. Before you leave that, the Imperial Tobacco Company of Canada do act as agents for the Imperial Tobacco Company of Great Britain in their purchases in Canada?—A. We have for two seasons, yes.

Q. That is merely an agency?—A. An accommodation which I think we have tried to explain in our brief.

By Mr. Sommerville:

Q. Now, Mr. Miller, will you tell me what has been the reduction in the price that you have paid to the producers for their raw leaf during each of the past five years?

The CHAIRMAN: Give us the page of the brief where you deal with that. Page 29, is it not?

Mr. FACTOR: Page 11, I think it is.

The WITNESS: No, that is crop prices, I think.

The CHAIRMAN: How about page 29; does that show it?

The WITNESS: Yes, I think that is it, page 29. Page 11 is the crop prices, average of the flue-cured crop year by year, as published by the various authorities I referred to. As you notice, in 1933, there has nothing been obtained, and we have estimated that on the basis of what we paid, or we just put our figure in there. On page 11 are the prices paid by the Imperial Tobacco Company for their tobacco.

By Mr. Factor:

Q. You mean page 29?—A. Yes, page 29.

By Mr. Sommerville:

Q. That is what is paid by the Imperial Tobacco Company for the tobaccos purchased by you in each year?—A. Yes, flue-cured.

Q. And the crop of 1927; perhaps you have the amount available that you can put opposite each of these items as they are dictated, the amount of your purchases?—A. They are stated there in another section on page 21—our purchases. We will start with 1927. For the whole crop of flue-cured tobacco, 33.9 cents; we purchased in 1927—

Q. What page is that?—A. Page 11—it shows the average.

Q. And according to this record it was 33.9 cents?—A. Yes.

Q. And the average price paid in that year was 34.7 cents?—A. Yes, sir.

Q. And the quantity purchased by you was 5,003,000 pounds green weight, which represented 80.3 per cent of the crop?—A. Of the entire crop, yes.

Q. And in 1928 the average price paid for the whole crop in Canada was 31 cents, and you paid—?—A. 32.3 cents; we purchased 7,049,000 pounds which was still 80.9 per cent of the crop. In 1930 the average on the crop was 32 cents; the price we paid was 31.1; and we purchased 8,890,000 pounds or 84.7 per cent of the crop. In 1930 the average price was 32 cents, we paid 31.9 cents, and the amount we purchased was 8,879,000 pounds or 71.7 per cent of the crop. In 1931 the average price of the whole crop was 20.5 cents; our average was 21.9, and we purchased 14,448,000 pounds, which was only 59 per cent of the crop. In 1932 the average all-over price was 16 cents; we paid 17.3 cents and we purchased 15,470,000 pounds, or 56 per cent of the crop. In 1933 as I said, that price is our price; I do not know what the whole price was—19.8 cents.

Q. That is the average price you paid?—A. Yes. We bought 11,961,000 pounds which was 53·2 per cent of the crop.

Q. Now, you will observe there is a very sharp variation in the price paid in the last three or four years for flue-cured tobacco; in 1930 you paid 31 cents, in 1931 you paid 21 cents, in 1932 you paid 17 cents and in 1933 you paid 19 cents. Who makes the market?—A. On this subject of leaf which we had understood was one of the prime points in connection with your investigation I would like to suggest sir that this whole brief, primarily the first two sections of it at any rate, is on that subject. It is a difficult subject to explain. I certainly do not want to take up the time of the committee unnecessarily, but we put a lot of thought in trying to put forward these questions, and it would be most difficult to answer other than by reading the vast majority of the matter that is there, covering particularly the various charges that have been put against us in the previous testimony; and I was wondering if maybe you did not feel that we might at this juncture read that.

Q. I thought perhaps that question might be answered rather simply; that as you are the largest buyers, you fix the price that is paid?—A. We fix the price that we pay.

Q. We will put it that way, you fix the price that you paid; and nobody buys until you have started off to buy, is not that the fact?—A. Well, yes, of course,—I believe that has been the custom, yes, sir.

Q. And that has been the practice over a period of years, they wait for the material to buy?—A. Might I not read.

The CHAIRMAN: You answer the question, Mr. Miller, in your own way. The question is asked of you and we want to give you full latitude in answering the question.

The WITNESS: Thank you, sir. Now, the question of opening the market —page 35, might I read that.

The CHAIRMAN: Yes.

OPENING THE MARKET

For the sake of brevity I shall not quote even part of all that has been said or attempted to be construed from the dates on which the Imperial Tobacco Company made its first purchases of respective crops of flue-cured tobacco. I do, however, flatly deny any attempt or desire to dominate the market or that any action has been taken by the Imperial Tobacco Company to intentionally, or otherwise, demoralize the producers, but in order to remove any further grounds for such absurd and ridiculous inferences and charges as have been laid to the Imperial Tobacco Company of Canada, Limited, I am authorized to state that we shall be pleased to meet all buyers for the purpose of determining a date on which all buyers will effect their first purchases.

However, I should point out at this time that if absurd and ridiculous inferences have been adduced to the buyers when they have never met to determine any concerted action, that from the suggested buyers' meeting for the purpose of determining the date of purchase there may arise in the minds of the producers, or others actuated by malicious motives, a suggestion that at such meeting of buyers to determine the date of opening, the buyers at that time fixed and determine the prices to be paid, and I take particular pains to direct to your attention the probable consequences that may arise from such a meeting and to point out that while we do not propose that this meeting be held, we will however agree to attend and participate in such a meeting for the purpose of determining the date of opening only, providing that this committee and others who find fault with the present practice, assume the responsibility of recommending to the buyers that they adopt such a practice.

While dealing with the subject "Opening the Market," I desire to say, for the benefit of the uninformed, that leaf tobacco is not a perishable commodity such as peaches, pears, strawberries, etc., that must be disposed of within a very short time following their being offered on the market. The fact of the matter is that the Imperial Tobacco Company contracts for the purchase of practically all of its Canadian flue-cured tobacco within 45 days and the tobacco so purchased remains in the hands of the producer in precisely the same form as that when purchased until called for delivery by the purchaser. The purchaser is only able to take delivery in accordance with his capacity to handle the same, with the result that, while we may complete practically all of our purchasing within a period of less than 45 days, the fact remains that we take delivery of that tobacco over a period of approximately four months.

Q. Now, that is interesting, Mr. Miller, but it does not answer my question; who opens the market?—A. I think we have; I think that has been the practice with a few exceptions; if you mean by opening the market the person who first places an order or names a price, it has been Imperial Tobacco Company.

Q. And for many years, up to 1931 and I think including that year, you brought from 75 to 80 per cent of the crop? -A. For some years back, not in the last three years though.

Q. I appreciate that?—A. Yes.

Q. And up to that time there had apparently been a steady but slow increase in the acreage and in the quantity of flue-cured produced? -A. Let me refer to page 5, on the subject of production of Ontario flue-cured tobacco; maybe you would like to have me read the table there.

Q. Up to 1930, from 1924 to 1930 there had been a gradual increase in the amount of crop?—A. Up to 1928 I would think. Let me read that:

> I particularly direct your attention to the production of flue-cured tobacco as set out in the foregoing "Table 1," showing nine million pounds in 1928, ten million in 1929, twelve million in 1930, twenty-four million in 1931 and twenty-seven million in 1932; and while the production figures for the year 1933 used in the above Table are those of the Department of Trade and Commerce, it is, however, the Imperial Tobacco Company's opinion that there were 25,682,800 pounds of flue-cured tobacco produced in 1933.

Q. And for some years prior to 1932, you have been paying an average price of upwards of 35 cents a pound, and taking 80 per cent of whatever crop was produced?—A. I do not think that it was that high. No sir, page 29 shows the highest price was 34 cents, 32 cents and 31 cents.

Q. 30 cents or better?—A. Yes.

Q. As a matter of fact the top price was around 40 cents, and the average scaled down to 34 cents and 35 cents, I understand?—A. I do not know, sir.

Q. You did not know that. Well, you have opened the market each year and bought the quantities that you have suggested; but in the year 1931 a change took place and instead of opening the market at 40 cents, an average of 35 to 40 cents, you opened the market at a top price of 30 cents; do you remember that?—A. Yes, I remember something like that.

Q. And very quickly your average dropped to 20 cents in the year 1931; so you remember that?—A. I do, but I do not recall the particulars.

The CHAIRMAN: The price is indicated here in the statement, an average of 21.9.

By Mr. Sommerville:

Q. I am talking of the opening in 1931. From the evidence given us, the opening was 30 cents, and within a week you were only offering 20 cents for top product. Now, will you tell us why there was a drop of one-third within five or six days?—A. Yes. Quoting from page 29:

> Dealing with prices paid in the years 1931, 1932 and 1933, the Imperial Company, recognizing that the production of these crops substantially exceeded both domestic and export requirements and that the price must be ranged down to a figure nearer to a comparable price for Empire Leaf; and contemplating the possibility of there being a substantial quantity of such leaf tobacco dumped on the market with no buyers, resulting in leaf in large quantities being made available to competitors at distress prices which they, in turn could offer to the consumer at so reduced a price as to entirely disorganize the marketing of manufactured tobacco; and contemplating the possibilities of a vast quantity of Canadian leaf being offered at distress prices so discouraging the cultivators as to result in subsequent production inadequate for domestic requirements, the Imperial Tobacco Company effected purchases at prices which were still higher than comparable Empire leaf, but which it was hoped would not result in important quantities of Canadian leaf being sold at distress prices and which it is felt returned to the producer a fair profit on his investment.

Q. But that does not answer my question.—A. I do not know that it does.

Q. The question was, knowing the acreage, knowing the production, having your inspectors' reports in your books as to the exact condition of that crop, you started out and offered on Monday morning, on the opening day of your market, 30 cents as a top price. Now, why did you drop it within six days to 20 cents for the top price for the same product, bought from John Jones for 30 cents, and then bought from Bill Smith within six days, the same product, at 20 cents, when you were the dominating factor in the market, why?—A. It could not have been worth that sum.

Q. Well, was it worth it for the same commodity? I am talking about top prices, for top grades. Why was it that in the second week you only paid 20 cents for the top product?—A. Is not that covered, sir, in the Sutherland report?

Q. Never mind the Sutherland report, I am asking you a particular question. —A. I cannot answer your question.

Q. Let me ask you this then: Was it a fact that in the purchase of the crop of 1931 you got certain definite information, or directions, from New York as to the price to be paid the second week?—A. Not to my knowledge, sir.

Q. Well, did you get any information or instructions from a Mr. Harrison? —A. Not to my knowledge, sir.

Q. Are you sure that there was no direct communication with Mr. Harrison the very first week after that purchase was being made, and the direct orders given from New York "Cut it down to 20"; that is my information?—A. Well, I have no recollection or knowledge of it. I do not recall any such affair.

Q. Well, you knew the product, you knew what your needs were, you knew the quality, you knew the quantity; can you tell this committee why you, dominating that market, took 35 per cent off those farmers for top price within five days? Did you find them too soft the first week?—A. I cannot answer your question, sir. Mr. Buell, First Vice-President in charge of our leaf department, has more intimate knowledge of the handling of the leaf department. I have not, and I cannot explain that question to answer it definitely.

Q. Well, you know that for years previous to that there never had been any trouble?—A. Yes.

Q. But you do know that the purchase of the crop of 1931 did create a very, very bad condition among the growers, and also a panic; you know that much, Mr. Miller?—A. I know there was some dissatisfaction, yes sir.

Q. Well, let us put it "dissatisfaction." I said "panic"; that more nearly describes it. Let me ask you this, Mr. Miller: Was it in the year 1931 that Mr. Lea first appeared upon the scene in the purchase of that crop?—A. Yes, sir.

Q. Did the appearance of Mr. Lea from Kentucky, who had experience with the negro growers of the south, did that have some effect upon his attitude towards the farmers of Canada?—A. I do not think so, sir; no sir.

Q. You think not?—A. No, sir.

Q. Had he ever bought anything by the barn method before?—A. Yes, sir.

Q. He had?—A. Yes, sir.

Q. Is it not a fact that he was in the habit of buying on the auction floor?—A. He had done both, sir.

Q. I thought the barn method did not apply in the United States?—A. It does, sir. It has, to a general extent, at places.

Q. Well, did the introduction of Mr. Lea into the purchasing program of 1931 make a difference with the growers?—A. I do not think so, nor do I believe so.

Q. You think not?—A. No, sir.

Q. Did you have any complaints that he was not giving them a square deal?—A. Not to my knowledge.

Q. Well, what were the complaints that you had?—A. Well, I haven't any recollection of any specific complaints, except my recollection, if that was the time, that we heard through some department at Ottawa that they had been having complaints.

Q. Yes. As a matter of fact, Mr. Miller, is it not a fact that the growers were in such a panic that they appealed to governments to help them against this new buyer for the Imperial Tobacco Company?—A. Well, I never realized it, sir.

Q. Well, you are realizing it now. At any rate, can you tell this committee why, in the name of God, you dropped the price from 30 to 20 cents within five days when these men had been growing for you for years, and you had encouraged them to grow for years and had taken everything they grew to the extent of 80 per cent of the whole crop? Will you tell us why, because if you have got an explanation this is the place to make it, Mr. Miller.—A. As I have said, Mr. Sommerville, I have got an explanation to make of our whole attitude with respect to the buying of tobacco in Canada. This whole brief tries to cover that situation, sir.

Q. You can deal with that later, but I am asking you now, with the full knowledge of that whole situation in 1931 that you had canvassed completely, and you had a note on probably every acre of tobacco grown in that country, can you tell us why, with that full knowledge, you started out at a high of 30

cents and dropped it to 20 cents in a few days, for the top product?—A. Mr. Buell advises that the top prices to start out with that year were 30 cents.

Q. That is what I said, and within one week you dropped it to 20 cents?—A. For top price?

Q. Yes. Mr. Miller, let me give you a little information: on Monday morning of the first week you started out at 30 cents and you bought for several days at 30 cents. Then your Mr. Lea left for Montreal, and came back with certain instructions, and on Monday morning went out and created consternation amongst those farmers by offering 20 cents for top price. Why, and what instructions did he get at Montreal?—A. There was just too much tobacco.

Q. Not in 1931.—A. In 1931.

Q. Oh no, I am talking about 1931.—A. There was twice as much as there was in the previous year.

Q. Oh yes, but you took 75 per cent of it.—A. What were our purchases, though, of that crop.

Q. Well, you took 60 per cent of it I think. But, Mr. Miller, coming back to the point, you knew how much tobacco was there, and the day you opened the market you had known for months, you had counted the fields, and you knew the exact condition of that crop. Now, why did you start out at 30 and then drop to 20 for the bulk of your purchases because you must have made the bulk of your purchases at 20 cents or lower to get down to that price.—A. To get down to an average price.

Q. Of 20 cents.—A. The average price for 1931 was 21·9. The price paid by others was 18·5.

Q. Yes. I suggest to you, Mr. Miller, that that meant a drop of 9 points from the top to the average, that never for years before had there ever been such a discrepancy between your average and your top price in any purchases that you made. Now, you know that. Why was that?—A. Well, as I remember it, it was the biggest year's crop that we had ever had.

Q. But you knew that when you started out with a top of 30 cents? Why were you paying 30 cents as the top price, and then on the following Monday morning dropping it to 20? That is what the farmers of this country are asking, and I am asking you, Mr. Miller, as representing this dominating factor in the market, to explain it.—A. Well, sir, except for the fact that it was a big quantity of tobacco and we must have thought that it was too high. I cannot go back now and remember the exact details.

Q. You must have thought; where did you get the second thought from, New York?—A. I do not recall anything coming from New York.

Q. No. Did you have any communication with Mr. Harrison about that crop of 1931?—A. I had no communication with him, I do not recall any.

Q. Surely you are in touch with all of your group, Mr. Miller?—A. In touch through Mr. Buell.

Q. Certainly, and you certainly would discuss your needs before your buying program was begun, and the price that you would pay?—A. In the first place, I might say that at that time I was not president of the Imperial Tobacco Company.

Q. In 1931?—A. No.

Q. Who was president?—A. Mr. D. C. Patterson.

Q. And what was your position then?—A. One of the vice-presidents.

Q. Well, we are asking you now—A. I know, but you were trying to infer—

Q. I do not infer anything Mr. Miller. I want to know from a responsible man in the Imperial Tobacco Company why this change of policy with the farmers of Ontario.

By the Chairman:

Q. What was your position as vice-president, Mr. Miller?—A. In charge of the selling end of it, Mr. Stevens.

Q. Well, Mr. Miller, I must say that I think Mr. Sommerville's question is an exceedingly important and pertinent one, and what puzzles me, frankly, is in a matter of such grave and major importance as this, in the face of a 30 per cent drop in the price paid within a week, why the heads of the Imperial Tobacco Company from its president down to its chief buyer would not have known precisely the reasons why that was done; I confess, frankly, it does not appeal to me as a possibility that that could have happened without the heads of the company knowing.—A. Well, I am not trying to say that we did not discuss it, but you are asking me to go back to 1931.

Mr. Sommerville: The year of the panic, the first panic.

By the Chairman:

Q. It is the year, Mr. Miller, when there is a sharp change in policy. And furthermore, you will not deny this, I don't think—it is known to the committee at least that all large buyers, particularly your own company, carefully examine the crop during its growing period, so that you have scientific knowledge of precisely what the crop is?—A. Yes, sir.

Q. So that when it comes to the day of opening you know quantities, the general amount of each, and the class of tobacco that is being produced, the state of the crop, and you, of course, know your own requirements and your own stocks, and I must say I think Mr. Sommerville's question is one that, so far as I am concerned as Chairman of the committee, I will expect to be answered in a very definite way and a very clear explanation given.—A. Well, it is not that I am not trying to answer you, Mr. Chairman, or Mr. Sommerville.

Q. Well, Mr. Miller, you have certainly throughout the day exhibited a desire and an effort to answer all the questions that have been asked, but I do not know of anything that is as important as this one question, and I must say we will expect, we must expect a definite answer to it.—A. Well, the point is, as to why the top price of—

By Mr. Sommerville:

Q. Why you put the top price for top crop from 30 cents to 20 cents within one week when you knew the whole crop condition?—A. Mr. Buell suggests that in a week's time we had bought up most of the best crops.

Q. If that is so then you bought it at a good deal less than 20 cents.—A. We must have bought later at cheaper prices.

The Chairman: Arithmetically, Mr. Buell's answer does not sound reasonable. You see your average price, Mr. Miller, is 21 cents, and if you bought in the first week a certain quantity at 30 cents you must have bought after that at much less than 20 cents to arrive at an average of 21. I suggest to you that Mr. Buell's answer is not an answer. Mr. Buell may have under his hand possibly the prices and quantities bought during that first week.

Mr. Sommerville: You have got your daily purchases?

By the Chairman:

Q. Mr. Miller, have you your daily purchases for the first week of the crop of 1931?—A. We have not got that with us. We can get it and produce it for you.

Q. Surely Mr. Buell, your head buyer, can, from memory, give to you fairly well the answer for that.

By Mr. Sommerville:

Q. Could you, by telephone, have it sent up to-night so that we might have it in the morning?—A. We will try to, sir.

Q. Now then, if you do not know— A. For how long?

Q. I want your daily purchases for the 1931 crop. Now then, you will see the importance of knowing the answer to that question, because you realize that no competitor can go out and pay more money than you pay, can they?—A. Well—

Q. They would be at a disadvantage in competing with you, would they not?—A. Yes, sir.

Q. So that when you drop the price everybody else has to drop the price, and that affects every grower in the country so that it is an important thing, is it not, Mr. Miller?—A. Yes, sir.

Q. In other words, you dictate the market, not that you have any sinister object in doing it, but the very existence of such a powerful buyer taking such a large proportion of the crop dominates the market and fixes the price. I do not think there is any doubt about that, is there, Mr. Miller?—A. Broadly speaking, I think that is correct.

Q. Now, Mr. Miller, will you tell me, in that 1931 crop what was the nature of the complaints that were made about the purchase, the price paid, and what was done to the growers?—A. To be perfectly truthful, I have only a hazy recollection and can only speak because of your refreshing my memory of that crop and the drop that you refer to in the price, which must be correct from what you say; I haven't any clear recollection of anything specific or anything general at all; it is only from what you have said. I know we have had at times complaints of low prices.

Q. Well, who directs the policy of purchasing from your office?—A. From our office?

Q. Yes.—A. Mr. Buell in consultation with the executive committee of the company.

Q. With the rest of you?—A. Yes, sir.

Q. So that it is executive action taken in purchasing the crop?—A. Yes, sir.

Q. And Mr. Buell carries out the policy that is thus laid down?—A. Yes, sir.

Q. Now, was there any meeting of that executive to change the policy during the first week of your buying on the market, or was it entirely left to Mr. Buell?—A. I cannot answer that, sir.

Q. I will tell you why. It has come to me from a dozen sources, that when Mr. Lea came back from Montreal, or had his messages from Montreal, he went into the hotel at Tillsonburg and he said "We have got to drive this market down, those are the orders and they have got to be obeyed." Did you know of that?—A. I never heard of it, sir.

Q. And that to show them how it could be done, he went out himself, bought crops, came in with the sample of it, and would exhibit the samples in the hotel lobby to the public, if you please, as well as to the buyers, and say, "what do you think of that, what is it worth?" and the buyers would say "24 cents." "Well," he said, "I just bought that from a fellow who is putting himself through school at 14 cents and he took his medicine like a man."—A. I never heard of that.

Q. Is that the kind of buying policy that created the trouble in 1931?—A. I never heard of such a thing.

Q. You never heard of such a thing?—A. No sir, never heard of it.

Q. Did you hear of the wives of the farmers who cried in his presence at the way he was treating the crop that he was buying, and begged of him not to treat them that way?—A. No, sir.

Q. Never did?—A. No, sir.

Q. Did you hear of the occasions when he begged of the women to go into the house, that he could not carry on because of their weeping at the price that he was offering for that crop?—A. No, sir.

Q. Well then, you have not heard very much.—A. No, sir, not along that line.

Q. At any rate, Mr. Miller, there was very considerable commotion, shall we say, after the buying months of 1931. Will you tell me why there should be? —A. Well, sir, I understood we were going to get you, for one thing, the prices that we paid day by day, which certainly would be an indication of just what our policy must have been at that time.

Q. All right, we will leave it at that. We will deal with the 1932 crop to-morrow.

Mr. Factor: We will complete this to-morrow.

The Chairman: Yes, it is six o'clock. We will adjourn till to-morrow morning at 11 o'clock.

The Committee adjourned at 6 p.m., to meet again Friday, 4th May, 1934, at 11 a.m.

HOUSE OF COMMONS, ROOM 268,
May 4, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 a.m., the Hon. H. H. Stevens, presiding.

Mr. Norman Sommerville, K.C., of Toronto, appeared as counsel for the committee.

The CHAIRMAN: The minutes of yesterday merely recite the witnesses heard and certain exhibits filed, no other matters. I declare the minutes approved.

GRAY MILLER, examination resumed.

By Mr. Sommerville:

Q. Mr. Miller, last evening we left off at that point where you were being asked to explain why the sudden drop in the price of raw leaf purchases in the purchasing season of 1931, and you were going to give us a reason this morning. What reason have you for that drop from 30 cents top to 20 cents within a week, and for the drop that took place that resulted in your buying that whole crop on an average, on your own statement, of 22 cents?—A. Mr. Chairman, before proceeding this morning I wish to state that, in my judgment, counsel for the committee was more or less unfair to me in his method of examining me in reference to the purchase of the 1931 crop. Throughout these entire proceedings, as you yourself openly observed, I have been absolutely frank and truthful in all my statements, have made complete disclosures in reference to all matters of which I have definite knowledge, and in addition have spent considerable time and effort in endeavouring to bring about a basic working agreement between ourselves, the other manufacturers, and the producer.

I was utterly astounded at the charges against the Imperial Tobacco Company of Canada, Limited, involved in the counsel's examination, and felt confident that they were not in accordance with the facts.

During the night I have made a very complete investigation of all the circumstances surrounding the purchase of the 1931 crop, and have obtained all figures covering our daily purchases during that crop buying season. I must confess I am more or less relieved to find that conditions were not as stated by counsel, but on the contrary are very satisfying to me, and I hope will be equally satisfying to the committee in relation to this aspect of the matter. You have asked me to submit this morning an explanation of this condition.

In the first place, we are dealing only with the purchases of the Imperial Tobacco Company of Canada, Limited, and not with the purchase of the total crop.

It would appear, from the manner in which you dealt yesterday with the relation of the top price to the average, that you are under the impression that there should be some relation between the top price and the average from one year to another. If you have any such impression, then I hasten to assure you that there are important factors involved—which you have apparently

overlooked—which nullify any such construction as you now attempt to place on the relation of the maximum price to the general average.

If, for example, the crop of leaf tobacco one year with another were precisely the same as to quantity as to quality, and as to the proportion of the various grades to the total crop; and if there were precisely the same demand for precisely the same quantity, one year with another, then there would probably be some relation in the ratio of the top price to the average year by year. However, the tobacco crops from year to year are not as uniform, one with another, as an annual relation of top price to average price would require.

It is quite apparent that the quantity of the crop has fluctuated violently, and has increased entirely out of proportion to any apparent demand, which is made abundantly clear in the brief which I endeavoured to submit for your consideration yesterday.

The average quality of the crop for one year will vary from the average quality of the crop for another year; and the available proportion of top grades, medium, or low grades will likewise vary from year to year.

In proceeding to buy, the manufacturer first determines his requirements, and then estimating the quantities of various grades available in the crop fixes the average price he is prepared to pay, and from this average determines a high price which is based upon his estimate of the available volume of grades required.

It, therefore, follows that the relation of the top price to the average is contingent entirely upon the conditions prevailing in relation to the particular crop under consideration.

Amongst your charges of yesterday, you stated that in the year 1931 we opened with a top price of 30 cents and within six days reduced our top price to 20 cents. That is not in accordance with the facts. We did not reduce our top price in the year 1931, or for that matter in any other year. We fix a top price that we are prepared to pay for tobacco, and continue to pay that top price for all crops of a quality equal to those for which we determine to pay top prices.

When beginning to buy a crop, we usually purchase the better quality first and then proceed to pick up crops of the lesser qualities. It does not follow, however, that in the first week or ten days we have purchased all of the top grades of tobacco, as can be proved from our effecting purchases at varying prices from time to time throughout the period of purchasing, and I take strenuous exception to any charge that we have reduced our top price. I submit that no such reduction has taken place, and that we have always maintained a scale of payment, comparable to the quality of tobacco that we purchase.

And I make a positive assertion at this time, that in our purchase of the 1931 crop, to which you refer, when we paid 20 cents a pound for tobacco it was 20 cent quality, and that if it had been 30 cent quality we would have paid 30 cents.

Having discussed with Mr. Buell and Mr. Lea, and investigating all records within the short time at our disposal, I would like to give you as near as possible a true picture of what happened surrounding our purchasing the 1931 crop of flue-cured tobacco.

By the Chairman:

Q. Did you get those sheets that we suggested for the first two or three weeks?—A. Yes, sir, the whole crop day by day.

We have endeavoured to point out in our brief that the prices for tobacco in 1929 and 1930, which were higher than in our judgment was wise and for the good of the industry as the growers were attempting—

By Mr. Sommerville:

Q. The prices you paid were higher than in your judgment was wise and for the good of the industry?—A. Taking into account the whole picture.

Q. Do not let me misunderstand you, Mr. Miller. You do not mean that the price paid was too good for the manufacturer?—A. I am talking of the industry as a whole.

Q. What do you mean by the industry?—A. The tobacco industry.

Q. Manufacturer plus grower?—A. Plus consumer, plus everybody.

Q. Then would you say that it was good for the grower to get a lower price in 1931?—A. Would you please let me finish, sir.

Q. I would just like that explanation as you go along, I do not like to miss anything.

Mr. FACTOR: He said, the price paid in other years was not wise or for the good of the industry.

The CHAIRMAN: That would leave a wrong impression on one's mind. I think it would be better if you clarified that, Mr. Miller. I would take it to mean that it was not good for the growers. What you are referring to is the price paid for green leaf?

The WITNESS: Yes, sir.

By the Chairman:

Q. And you say, that in your opinion, the price paid in 1929 and 1930 was not good for the industry?—A. Yes, sir.

Q. I would take that to mean, that you meant it was not good for those who were producing green leaf?—A. Well, in the long run we do think so.

Mr. EDWARDS: Might I suggest, Mr. Chairman, I have read this brief over pretty carefully and I think that pretty well explains Mr. Miller's statement.

The CHAIRMAN: What?

Mr. EDWARDS: The industry as a whole.

The CHAIRMAN: We want to be perfectly clear on that.

Mr. SOMMERVILLE: All right, Mr. Miller.

The WITNESS: We have endeavoured to point out in our brief, that the prices for tobacco in 1929 and 1930, which were higher than in our judgment was wise and for the good of the industry as the growers were attempting to increase the growing of tobacco beyond local demands, and against our advice. Therefore, it was necessary, in our judgment, that their prices should be somewhat comparable with the prices of World Empire grown tobaccos. And, in this connection, Mr. Buell and perhaps others discussed from time to time with Mr. R. C. Harrison, Director in charge of the Leaf Department of the British American Tobacco Company, this whole subject, and he did feel that the prices were higher than they should be.

I would like to make it plain, that neither Mr. Harrison nor anyone else connected with the British American Tobacco Company, nor anyone outside the Imperial Tobacco Company of Canada, at any time designated prices that we should pay for tobacco in Canada; and, beyond Mr. Harrison giving his general opinion on prices, there was no other influence that he had on the situation.

By Mr. Sommerville:

Q. What is Mr. Harrison's position?—A. Director in charge of the Leaf Department of the British American Tobacco Company.

Q. And did he give that information daily?—A. No, sir.

Q. On telephone calls from Tillsonburg?—A. No, sir.

Q. Did anyone of your officials communicate with Mr. Harrison daily?—A. Would you mind letting me finish this, please.

Q. You are saying that no instructions were given. I am just asking if there was daily communication, long distance telephone calls from Tillsonburg to Mr. Harrison in New York?—A. No.

Q. From the Arlington Hotel? Mr. Lea would be able to tell.—A. There was not, I don't think.

Q. I do not want you to answer that offhand, because my instructions are quite to the contrary.—A. No, sir.

Q. Not in 1931?—A. No, sir.

By Mr. Ilsley:

Q. When was this conference between Mr. Buell and Mr. Harrison?—A. I am only speaking generally. The whole subject had been discussed at various times.

Q. It does not mean anything if it was between 1925 and 1928. Was it in the fall of 1931 that conference or conferences took place between Mr. Buell and Mr. Harrison? That is what the committee would like to know.—A. Conferences have taken place every year.

Q. Conferences have taken place every year between your company and the British American Tobacco Company with reference to price?—A. No, not necessarily that.

The CHAIRMAN: Perhaps we might let Mr. Miller finish his statement and then we can examine him in regard to the facts indicated.

Mr. FACTOR: We are liable to forget some points.

Mr. ILSLEY: I agree that, if at all possible, we should not interrupt the witness, but when he says that a conference or conferences took place it does not mean a thing unless he states when the conference or conferences took place.

Mr. EDWARDS: I think it would be much better if we let Mr. Miller proceed with his statement and then we can put questions afterwards.

The CHAIRMAN: Let me put it this way: We will request, as far as possible, that the witness proceed with his statement, but I am certainly not going to muzzle the committee, or any member, from asking a question if he so wishes, but I just draw the attention of the members to the desirability of letting him finish his statement.

Mr. SOMMERVILLE: All right, Mr. Miller.

The WITNESS: I would like to read that paragraph over again:

I would like to make it plain that neither Mr. Harrison nor anyone else connected with the British American Tobacco Company, nor anyone outside the Imperial Tobacco Company of Canada, at any time designated prices that we should pay for tobacco in Canada.

Mr. FACTOR: That is a plain statement in itself, but it does not answer the question that we are trying to arrive at.

The CHAIRMAN: We will examine Mr. Miller on that later, Mr. Factor.

The WITNESS: And beyond Mr. Harrison giving his general opinion on prices, there was no other influence that he had on the situation.

Mr. F. R. Gregory was the senior officer in charge of the company's leaf buying operations in the year 1931. Mr. Lea was junior to Mr. Gregory and, as such, did not direct the operations of the company in buying this crop.

Mr. Gregory was given instructions as to the buying of the 1931 crop, with 30 cents as a maximum price, and the average price to be below 24 cents.

You will note, from statement of daily purchases submitted, that 36½ per cent of our total purchases was made the first day, Tuesday, the 6th October,

at an average price of ·2765 cents; and Mr. Buell felt, upon getting this report, that Mr. Gregory was not following out his instructions in line with arriving at the above general average, and so Mr. Buell telephoned Mr. Gregory reminding him, that in order to bring his general average under 24 cents, he would be compelled to buy some medium and common tobaccos to arrive at an average below 24 cents.

Mr. Lea came to Montreal that week-end and discussed the situation with Mr. Buell.

By Mr. Sommerville:

Q. Mr. Lea?—A. Yes, sir.

Q. Not Mr. Gregory who was in charge of operations?—A. No, sir.

Q. His junior—A. And Mr. Buell's assistant, yes sir.

Mr. Lea came to Montreal that week-end and discussed the situation with Mr. Buell and went back to Delhi with confirmation of these instructions from Mr. Buel to Mr. Gregory.

The fact of the matter is, that the total of purchases of flue-cured tobacco in Norfolk district for 1931 crop averaged ·2297 cents per pound.

I was positively astounded by your charges in relation to statements you claim were made by Mr. Lea in the hotel at Tillsonburg. I have carefully questioned Mr. Lea on this subject, and he tells me that there is no foundation for any such charges beyond Mr. Lea giving to Mr. Gregory Mr. Buell's instructions in Mr. Lea's bedroom in the Tillsonburg hotel.

I would like to say at this time, that Mr. Lea has had a wide experience in purchasing tobacco and comes to us very highly recommended. From all reports coming to our attention, all of the producers have spoken very highly of Mr. Lea's operations in purchasing tobacco in the flue-cured district in Ontario.

In closing, it should be noted, from the statement which I handed to you, that 36½ per cent of our total purchases were made on the first day; that 63 per cent of our total purchases were contracted in the first week; and that over 90 per cent of our purchases were contracted by the end of the second week.

Q. Mr. Miller, you have the daily purchases by prices, have you?—A. Yes, sir.

Q. Oh, this is lumped on the average for each day, these are lumped each day, the average for the day?—A. Yes.

Q. I thought you were going to give us the prices at which each of your crops were purchased?—A. I understand that is what you wanted.

Q. We wanted a statement so that we would then be able to tell or see the descent from top grades of 30 cents.—A. That shows it, does it not?

Q. This is averaged?—A. I understood, sir, that is what you wanted.

Q. At any rate, this is a fact, that on Tuesday, October 6, the market was opened and the average price paid that day was ·2765; that was the average? —A. Yes, sir.

By Mr. Young:

Q. For all grades?—A. Yes, sir.

By Mr. Sommerville:

Q. All purchases?—A. Yes, sir.

Q. And that day there was purchased 3,374,400 pounds; it does not show how many were bought at 28 cents, or 31 cents, or 22 cents.

Mr. HEAPS: How is the average arrived at?

Mr. SOMMERVILLE: Perhaps Mr. Miller can tell you.

The WITNESS: It is the total of all contracts that were made on that day; the contract is extended, quantity and price to arrive at a total amount, and the amounts are added up and the averages produced from that.

By Mr. Sommerville:

Q. That is, the total amount of tobacco it set against the total amount of money paid out?—A. Yes, sir.

Q. And that provides the average for the day?—A. Yes, sir.

By Mr. Factor:

Q. It may include different grades?—A. It does, sir.

By Mr. Sommerville:

Q. And, Mr. Miller, I observe that Tuesday it was 27?—A. Yes, sir.

Q. Wednesday it was 26?—A. Yes, sir.

Q. Thursday, it was 22?—A. Yes, sir.

Q. Friday it was 20?—A. Yes, sir.

Q. Saturday it was 19?—A. Yes sir.

Q. And after Mr. Lea's return from Montreal, it was 18 on Monday?—A. Yes.

Q. Then on Tuesday it was 19?—A. Yes.

Q. Then on Wednesday it was 16?—A. Yes, sir.

Q. And on Thursday it was 16?—A. Yes, sir.

Q. And Friday it was 17?—A. Yes, sir.

Q. And on Saturday it was 17?—A. Yes, sir.

Q. And then on the following Tuesday it was 15?—A. Yes, sir.

Q. And the day before, Monday, it was 16?—A. Yes, sir.

Q. And then on Wednesday it was 15?—A. Practically 16.

Q. The 21st?—A. Yes, that is right.

Q. So that from the 6th October to the 21st of October you have these variations in the averages paid?—A. Yes, sir.

Q. Now then, I observe that no further buying was done from the 21st of October until the 8th of November?—A. That is right, sir.

Q. And in the meantime may I draw your attention to what happened: The farmers of the district, aroused by the prices paid, approached the Ontario government for assistance; you know that?—A. No, sir, I do not.

Q. Well, I am told that is a fact?—A. All right.

Q. And that when that became known, that there would be assistance given by the Ontario government, I observe that on November 8th, when the buying began again, the average price jumped from ·1599 to 23 cents?—A. May I consult Mr. Buell. I think you must not have the right facts in regard to the Ontario government. I think you must be confusing that with some later crop prices.

Q. There was a very definite arrangement in regard to the 1932 crop. What was that promise?—A. What was the promise, if I may ask?

Q. That there would be assistance given to the growers so that they might hold their crops against this constant depreciation in price?—A. We have no knowledge of that sir.

By Mr. Factor:

Q. Did you have any communication from the Ontario government?—A. Not to my knowledge, no sir.

By Mr. Sommerville:

Q. How do you account, Mr. Miller, for the jump in price from the 21st October to 23 cents when you started in to buy again on the 8th November?—

A. Well, I have tried to explain as well as I can. I think we have said before that we buy the best crops that we can first, the major part of the top crops, anyhow, and later on we come across tobacco that is worth more money, and we buy that. That is just a statement I make, sir, I do not know.

Q. Do you want this committee to believe, Mr. Miller, that from the 8th October when you were paying 22 cents, to the 21st October, when you were paying 15 cents, you did not run across those crops?—A. No, I did not make that statement at all. These are the averages of the day. I do not know what the exact quantity was. It might have been at a much higher price. There must have been some at a higher price on each of those days, and some at a lower.

Q. I am asking your explanation for that variation. There is a 50 per cent increase in your own average for the amount sold?—A. Do you not think quantities have some bearing on that, sir? Look at the quantities at the lower price.

Q. All right, we will look at the quantities; 35,000 pounds at 23 cents. That was your buy for that day?—A. Yes.

Q. Then on the next day you got 65,000 pounds at 16 cents?—A. 16·89 cents, yes.

Q. The next day you obtained 124,000 pounds and the price went up to 23·23?—A. Yes.

Q. Why the variation?—A. Because of the quality of tobacco, in our judgment. Excuse me; I tried to make that plain.

The CHAIRMAN: It is a little unfortunate that you could not get during the night the information we asked for yesterday, that is, the actual purchases in that period, because that is the whole story. For instance, on the same quality of tobacco you pay one price on Monday and another price very much below on Thursday or Friday. Now, we are entitled to know the policy which prompted the Imperial Tobacco Company to make that change.

The WITNESS: Mr. Chairman, I have endeavoured to my best efforts to try to give you what I thought you wanted sir, as to the individual contracts.

The CHAIRMAN: May I suggest this: Your Mr. Buell is here. He knows those things, exactly. He has those things in a book; let him go down to one of our offices—I will send a messenger with him—and phone Montreal, and your stenographer or secretary or some one can give it to him in five minutes, I am certain.

Mr. BUELL: It cannot be done.

The WITNESS: There are about 900 contracts, sir.

By the Chairman:

Q. Mr. Miller, you cannot tell me the Imperial Tobacco Company have not a record of their tobacco purchases?—A. There are a body of contracts; these contracts are left in Leamington.

Q. Yesterday you made a statement yourself that as these purchases were made, the company itself had before it, from day to day, the quantities purchased, and they were able to gauge their business by those facts?—A. On the total.

Q. Surely—A. That is what we have given you, Mr. Stevens.

Q. No; will you pardon me. These figures really are quite useless, I submit to you. What value is there in those figures? On October 6th, this list shows an average price of 27 cents, which indicates to me as an ordinary business man, and common sense tells me that the top price must have been 32 or 33 cents?—A. The highest was 30 cents.

Q. All right, we will take that. Now, about five or six days after, we find 16 cents was the average?—A. Yes.

Q. Now, that indicates to me that there must have been some drop in the top price; that it is not all due to the fact that on that date you are buying nothing but poor tobacco. In any case, we are entitled to know.—A. May I suggest that I candidly do not believe that the contracts or anything else would give you any more of the picture than this does.

Q. Excuse me.—A. We are perfectly willing—I do not want you to understand otherwise—to have every one of them here.

Q. If you take the daily report from a gentleman like Mr. Lea, it will tell you that you bought so much tobacco on Monday, so much on Tuesday, and all the way down the line. You must have it?—A. The total?

Mr. YOUNG: The amount of each grade bought. We do not need the individual contracts.

The CHAIRMAN: No, the total quantity bought each day, each grade, and the price, that is all.

By Mr. Ilsley:

Q. Do you buy by grades?—A. No, sir.

Q. Let me ask you a question or two. Your buyer appraises it. That is to say, he makes up his mind that it will grade up in a particular way?—A. Yes.

Q. He uses his judgment, and if it is going to run to low grades, he pays a low price for it; is that true?—A. Substantially, yes.

Q. Therefore your contracts do not show the grades you get from a particular producer?—A. No.

Q. When you grade it, do you keep the tobacco that you bought from any particular seller, separate from what you bought from the others, so that you could tell from your books what particular grade you had when you graded the tobacco?—A. Do you do that, Mr. Buell?

Mr. BUELL: Not each grade of tobacco.

Q. In some business, it is done. Pardon me for referring to apples, but a buyer of apples keeps a record of the grades ordinarily, that he buys from each man?—A. Yes.

Q. So that he can see from reference to his books there was so many of No. 1, so many domestics, so many large domestics, so many small domestics, and so on. Have you a similar system with reference to tobacco, so that we could find out, and check your statement with more exactness? As I understand your statement, the variation in price depends entirely on variation in quality?—A. Yes. After we have set down the top price, and the average that we think is a fair price.

Q. That seems to be the point in issue?—A. Yes, you have it.

By Mr. Senn:

Q. I understand, as you go on buying you do not know how much of each grade you purchase?—A. Only as a mere estimate, or a rough estimate from the crop, from the survey that will have been made as to what is the prospect.

Q. In any event it is pretty certain the first purchases that are made are of the better quality of tobacco?—A. Yes, the top.

Q. Your average, after all, for the crop purchased, no matter what it might be, is the price for the better quality of tobacco?—A. I do not know that I get your question exactly.

Q. I mean to say, if you take the average of 22·97 cents per pound, that would not represent the average of the whole crop, it would only represent the average of what you purchased?—A. Yes.

Q. And that is a higher average than the average of the whole crop?—A. Yes.

By Mr. Sommerville:

Q. In other words, the Imperial usually bought the best of the crop?—A. And paid the best price.

Q. And paid, accordingly, a better price than on the whole average?—A. Yes.

Q. I agree with you on that.

Mr. HEAPS: Could we have the difference in value between the top and bottom grades?

Mr. SOMMERVILLE: At least from 2 to 30 cents.

Mr. HEAPS: On a given day?

By Mr. Sommerville:

Q. As a matter of fact, Mr. Miller, you must have that information in detail in your possession, because after the first day's purchase, you instructed Gregory he was overdoing it?—A. On the average, sir.

Q. On the average?—A. Yes.

Q. You instructed him that his average was too high?—A. For several days, I guess.

Q. You say he was the man in charge of the buying operations for that year?—A. Yes, on the ground.

Q. He has been for probably 30 years?—A. Well, a good many years.

Q. Twenty years?—A. A good many years.

Q. Is he the man who is responsible for the trouble you referred to as complaints from the area in 1931?—A. Only in the sense that he was in charge; I suppose he would be.

Q. What do you mean by that? Was there anything he did that gave rise to those complaints that you refer to as coming from the producer?—A. You mean—

Q. You referred to them yesterday. You agreed that you had a number of complaints. I called it a panic—you called them complaints. You had a number of complaints. Was he responsible for anything that occasioned those complaints?—A. Well, nothing that I know of, sir, offhand; I do not know of anything.

Q. Was it his operations that resulted in those complaints; it must have been?—A. It must have been, yes.

Mr. FACTOR: Might I suggest that we settle this point about getting some information in regard to the quality of tobacco?

By Mr. Sommerville:

Q. I think we can run it down very easily. You do get a record as the crop is growing from your field men of each man's crop?—A. Yes.

Q. You get a record of each man's crop during the season, as it is growing, from your field men who are travelling the area?—A. Yes.

Q. You have probably four or six field men who travel the area during the growing season?—A. Eight, is it not?

Q. And each man has his book and that book contains a record of the man's crop, his acreages and averages, at least, of his crop from time to time?—A. Yes.

Q. And then when the crop is put in the kilns to cure, he visits those kilns several times for the grading process, does he not?—A. Yes.

Q. He has a complete record, then, of how each crop is graded, as it is graded, and growing, and what its condition is with regard to cure?—A. Yes.

Q. Before you start out to buy you know the grade of that crop, do you not; is not that right?—A. I think that is substantially right.

Mr. ILSLEY: I think Mr. Buell wants to qualify that a little.

Mr. BUELL: I did not get that.

By Mr. Sommerville:

Q. Before you start to buy your crops, from the books of the buyers, you know the conditions of the grade, generally, of each crop?—A. We have some idea of it, yes, sir. We have as good an idea as we can get.

Q. You do not get a better idea by driving in on the day, and offering him a price?—A. No.

Q. So that you have the best idea that it is possible for you to get as to the condition of the crop?—A. Surely.

Q. Before you go to buy it?—A. Surely.

Q. Do you not put the price that you are willing to pay, or that your buyer is to pay for that crop on his book?—A. Sometimes we do.

Q. Where are these books for 1931, because I am told the price that he was authorized to pay he did not pay?—A. I do not know, sir, if they are down in Delhi.

Q. Well,— A. Mr. Buell can tell you, he is the manager there.

Mr. LEA: I think you will find them there, sir.

Q. Perhaps you will be good enough to produce those books?—A. Yes.

By Mr. Factor:

Q. When your buyer has completed a purchase, do you not keep a record of the details of the purchase, showing the quality and the price paid in your head office?

Mr. LEA: Not on the individual crop, no.

Q. You have, of the total purchased?—A. Yes. We have graded—

Q. You have that in your head office?

Mr. SOMMERVILLE: Let Mr. Miller give the answer.

By Mr. Factor:

Q. When you purchase a crop from an individual farmer, somebody keeps a record of the quality of the crop and the price paid for it?—A. Not individually, we do not. Just as we tried to explain, we do not keep a record of the result attained from an individual purchase from a farmer.

By Mr. Sommerville:

Q. I will follow this through for you, Mr. Factor. When the buyer comes out with his book, and has a record of that crop, and buys that crop, he marks on the book that he has purchased it at a price, does he not?—A. He makes a contract.

Q. Well then, what entry does he make in his book, his crop book?—A. Nothing special; no special entry.

Q. Then, the contract, coupled with the entries in the buyers' crop book, will give you the growing grade of that buyer, as he saw the crop, just as it was before he got it?—A. Estimated, yes.

Q. His estimate of the grade?—A. Yes.

Q. We shall be very glad to get that in that way.—A. May I interrupt a moment, because if Mr. Stevens wants us to do anything over the 'phone, as he referred to, we will be glad to do it.

The CHAIRMAN: Will you have one of your staff make a note of what we have been looking for here. For instance, these crop books will give us, I

think, the information; but if, instead of this statement showing the average price, you would show in each of those dates on the statement, how much the quantity of tobacco was, and the price actually paid for it—I do not mean to say every individual purchase, but suppose there were a million pounds bought at 30 cents, and a million and a half bought at some other figure, I should like you to give us what that figure was.

The WITNESS: I want to understand you. You mean, separate by price how much we bought at 30 cents, and how much at 29 cents, and how much at 29½ cents, and so forth?

Mr. FACTOR: How you arrived at the average.

Mr. KENNEDY (*Winnipeg*): Permit me to make a suggestion. Would it not be a good idea for Mr. Miller and yourself, Mr. Chairman, to confer before he starts to get this information, and then he would know just what you want, and he could have it for the next session.

Mr. SOMMERVILLE: I think we quite understand it now. If there is any doubt in Mr. Miller's mind, he can let us know.

The WITNESS: I thought that was what you wanted. We spent all night trying to get that over the telephone.

By Mr. Senn:

Q. You do not take delivery of the tobacco immediately the contract is made, I suppose?—A. No, sir.

Q. After it comes into your warehouse, it is graded, I suppose?—A. Before it comes in; when it comes into our leaf handling plant.

Q. You have no information as to how the grades compare in your warehouse with the grading that was made by your buyer?—A. No, you see for one thing our buyers are grading, I take it, pretty well all crops; everybody's is graded. Some we do not buy for various reasons. They sell it to somebody else. We do not demand a penalty, and so try to check up, if that is what you mean, on the buyers, as to whether they made a good estimate or not.

Q. It is apparent you might pick up a higher grading than you are getting on your lower grades— —A. Yes, that is quite true.

Q. You mean to say you have no information respecting the comparison of those grades by the buyer in your warehouse?—A. No.

By Mr. Kennedy (Winnipeg):

Q. Will you permit me to clear up this point. Reference is being made to buying on grades. Are there any specific standardized grades that are known to the tobacco trade, or is it merely that your buyer considers one of better value than another, and buys accordingly?—A. Yes, that is quite right, sir. What would suit one buyer or one manufacturer, would not probably suit another.

Q. There are no specific grades?—A. No.

By Mr. Ilsley:

Q. You said it was graded at the outset, when the purchase is made?—A. According to our own ideas, our own grades, and our own standards.

Q. What are those grades; what do you call them?

Mr. EDWARDS: Different plants have different grades.

Mr. KENNEDY (*Winnipeg*): I suppose you consider some grades better than others?

The WITNESS: For our own purposes.

Mr. FACTOR: In the Sutherland report, there is a copy of a contract which contains the following grades, A, B, C, D, E, F, and then numbers 9, 10, 11, 12, 15, 19, and 20.

The WITNESS: That was put into effect in 1932.

Mr. FACTOR: It will be found on page 36.

By Mr. Ilsley:

Q. You say you were willing to buy it during the whole season and pay 30 cents for a certain grade of crop? Now, what grade of crop were you prepared to pay 30 cents for?—A. The top.

Q. What was the top grade?—A. Well, a very high colour, very good quality. That is a matter of judgment of the individual buyer, something that has been developed over a long period of time by buyers and leaf handlers. I might say tobacco buying really is an art in the sense that it is a question in the judgment of the tobacco men, the best known and most reputed tobacco men in the world will differ one with the other over a piece of tobacco, maybe. I do not know how far, but to a considerable amount on price and quality, as to what he thinks of it, compared with what the other fellow thinks.

Q. The top grade is a matter of judgment?—A. That is all.

Q. Is it not a crop that will yield a certain percentage of a certain definite grade of tobacco?—A. Every crop varies.

Q. I know it varies; but I would imagine that when you are fixing 30 cents for a top grade crop you would mean a crop which would yield, say, 80 per cent—it might be 50 or 90—but 80 per cent of a certain quality of tobacco when it is finally graded out in your plant?—A. Yes.

Q. You have pretty definite grades in your plant?—A. Yes.

Q. Then you want to get a crop that will give you as large a percentage of the highest grade as possible, do you not?—A. Yes. We have to have some lower grades too.

Q. But that is the most valuable crop to you—if you were getting a crop that would give you 100 per cent of the highest grade known in your plant.

Mr. SOMMERVILLE: No. That is not the way it is done.

The WITNESS: No, we could not afford to do it on the basis of paying 30 cents or any fixed top price; we have to have low grades and all kinds of grades to blend. If we make it out of tobacco which we call the best tobacco and tried to make it all out of that you would not like it; it would be very distasteful. You have to blend it with a lot of other grades—lower grades, medium and so forth.

Mr. ILSLEY: So the high grades are worth no more than the low grades then?

The WITNESS: Probably because of a scarcity or because of colour which comes into it to a large extent.

Mr. SOMMERVILLE: They all go into the same cigarettes?

The WITNESS: They are used for different purposes.

Mr. KENNEDY (Winnipeg): It is just on the same basis as you put soda in your whiskey, I suppose.

The CHAIRMAN: Order.

The WITNESS: Yes, sir.

By Mr. Edwards:

Q. Does not this enter into it? At page 26 you are recommending to the growers the different types of tobacco that you suggest they should grow?—A. Yes.

Q. You say you recommend the growing of such tobaccos as "White Stem Orinocco, Gold Tip, Yellow Mammoth and Bonanza, which we advocate rather than the Warne and Gold Leaf varieties?—A. Yes, sir.

Q. Does not that enter into it very largely in deciding the quality of tobacco?—A. Fundamentally, yes, sir. In a broad way. But in each of these there are almost all grades.

By Mr. Sommerville:

Q. On your suggestion, as a matter of fact, the growers did change to Orinocco and Mammoth?—A. To a large extent.

Q. And practically all the crop of 1932 was grown according to your suggestions and on your advice?—A. Yes, sir, except as to the quantity.

Q. And the harvesting was done at your request and suggestion in a different way, by priming rather than splitting the stock?—A. Yes, sir.

Q. And, by the way, it was the 1932 crop which was grown at your suggestion, and these varieties turned out to be quite the best crop in quality that had been produced?—A. Entirely too large.

Q. The quantity may have been large, but the quality was an excellent quality?—A. Yes.

Q. Then, we got away from the question of the buying practice in 1932. That seemed to create the trouble. We are dealing with Mr. Gregory now. You say he was in charge of the buying and he had been buying at too high a figure, and he was called up or called down about it; somebody telephoned him. Who was that?—A. Mr. Buell.

Q. And the complaint was what?—A. That if—as I stated there, sir, if we were going to make our average price, as it was suggested, of something like 24 cents for the entire crop he was paying entirely too much for the higher grades, and he would have to buy more medium and lower grades in order to come within that scope.

Q. And as a result of that it passed into the hands of Mr. Lea rather than Mr. Gregory?—A. I do not think so, no.

Q. Why was not Mr. Gregory brought down to Montreal for the conference and for instructions rather than Mr. Lea?—A. Because Mr. Buell preferred to talk to Mr. Lea.

Mr. Lea: I live in Montreal.

By Mr. Sommerville:

Q. Mr. Lea had first joined your staff that year, 1931, had he not?—A. At the first of the year.

Q. But this was the first buying operation in which Mr. Lea had taken part, in 1931?—A. Yes.

Q. And is it not a fact that on the very first day of buying Mr. Lea, in company with one of the field men, did more than any other team in the whole buying organization that you had?—A. Yes.

Q. So that he was the man who was most active in the buying at those prices?—A. Apparently, yes; in fact, under the direction of Mr. Gregory, though.

Q. Perhaps we might have his purchases compared with the purchases made by others on that first day, and you could indicate in the report which you will make to us how much Mr. Lea purchased?—A. Yes; glad to do that.

Q. Can you give us any further explanation as to why the November prices ran to 25, 23, 23, 25, 23·96 after getting down to 15 and 16 cents in October?—A. I believe one of the reasons, quite apart from the question of the value of the tobacco, was that Mr. Lea told me there were some of the bigger groups getting crops—for instance, the Lake Erie company—which had not been seen by us and were buying at that time a better tobacco and better prices were given for it. I think you can get a verification of that.

Q. In other words, from October 6, to the 21st, you had not made an offer on the good crops of the Erie Tobacco company?—A. Yes.

Q. You had not made any offer; you knew all about that?

Mr. LEA: I did not.

By Mr. Sommerville:

Q. Your buyers did?—A. Yes.

Q. Your buyers had the records of them?—A. Yes.

Q. You did not make any offer on it at all?—A. Not to my knowledge.

Q. Now, why did you stop on the 21st of October? Why did you not continue?—A. Well, the only excuse—the only reason I know is we were getting our requirements filled; we were taking it easier in buying.

Q. Then, within two weeks you started out again, November 8, 9, 10, 11, 12 and 13?—A. Well, sir, we found other tobaccos that interested us.

Q. Your requirements were not filled?—A. I did not say filled; they were being filled. We had got the major part. I think I said 66 per cent.

Q. Mr. Miller, may I suggest this to you, that one of the easiest methods for one who controls a commodity to depress the market is to lay off the market for a couple of weeks? I think you will agree with that proposition?—A. That seems like it.

Q. And if you did lay off the market the effect would be to create a depressed condition of mind on the part of the owners?—A. Not necessarily—

Q. To make them more susceptible to selling at your figure?—A. I do not think that is a fair statement to us.

Q. I am not suggesting now that that was your motive?—A. Oh.

Q. That is the possibility, is it not?—A. Yes.

Q. You have heard of that being done, have you not, in some markets?—A. Oh, yes.

Mr. KENNEDY (*Winnipeg*): When they came back in to buy didn't they buy at a higher price?

The WITNESS: Yes.

Mr. SOMMERVILLE: I am going to ask in a short time what made it necessary to buy at a higher price?

The WITNESS: We found better tobaccos, broadly. I think we also got an order from the Imperial Tobacco Company in Great Britain for some eight or nine hundred thousand pounds.

By Mr. Sommerville:

Q. When did you get that order, in 1931?—A. I could not intimate the exact date.

Q. That is the 1932 order referred to in the Sutherland report.—A. I would not make that as a positive statement, if it came in at that time.

Q. You haven't got that date?—A. I may be able to find it. We will look for it in our records.

Q. At any rate, Mr. Lea when he came to Montreal got instructions to go back and see that the price was reduced to bring down the average?—A. As originally intended.

Q. As originally intended. And after coming back those instructions were carried out the second week?—A. Yes, to a degree.

Q. You got down to an average?—A. Yes.

Q. You got down to an average of $22\frac{1}{2}$ cents?—A. I don't know what that average is for the first week.

Q. I mean for the whole crop?—A. For the whole crop, yes; but that goes into January.

Q. Taking the whole crop, you got it down to an average of what?—A. 22·97.

Q. So that at the end of two weeks you must have been down to substantially below that when you began paying, 22, 23, 23, 25, 27·50?—A. I do not understand your question.

Q. At the end of the first week of buying— —A. The first two weeks of buying.

Q. By the 21st of October your average must have been substantially less than 22 cents?—A. I do not think so, sir.

Q. Because you will find that the next buying was at a higher price?—A. We will work that out and see; I could not say. It would look very like it would. The final average would be over 23, but we will compute it.

Q. Now, Mr. Miller, perhaps you will tell me what these conferences with Mr. Harrison were about with respect to leaf—Mr. Harrison of the British American Tobacco Company?—A. Mr. Harrison is in charge of the leaf buying for the British American Tobacco Company for all over the world where they buy for themselves, for the British American, and naturally, as he is experienced in world conditions and world prices and is also a good authority on leaf tobacco, and Mr. Buell is in charge of our buying of leaf tobacco, Mr. Buell likes to have the advantage of talking to Mr. Harrison about the manners of leaf. We have to buy American leaf—all kinds of grades of American leaf.

Q. Mr. Harrison does not buy Canadian leaf?—A. Oh, no; but I say in general.

Q. Why should Mr. Harrison be consulted about the purchases of Canadian leaf?—A. He was only consulted about the purchase of Canadian leaf along the lines I have suggested—only in relation to broad world markets for Empire leaf, and naturally discussed what are the prospects of the Canadian market and what are the prospects of Canadian prices and so forth—only in a very general way.

Q. Had he been consulted in connection with the market for the purchases of 1930?—A. 1930?

Q. Yes.

Mr. Lea: Every crop is discussed with Mr. Harrison.

By Mr. Sommerville:

Q. Was the discussion of exactly the same character for the crop of 1930 as for the crop of 1931, because the price is very very much larger?—A. It must have been along the same lines. We know of no peculiar difference.

Q. At that time in 1930 did he have a hand in fixing what would be the price; in helping you to settle upon what would be the price paid by the Imperial for the crop of 1930?—A. Will you put your question again, sir. It is rather involved.

Q. In 1930 did Mr. Harrison have a hand— —A. 1930?

Q. 1930?—A. He had a hand—

Q. —in helping you to fix the price you would pay for the crop of 1930?—A. Only in as far as I have already expressed.

Q. Why should he be consulted at all? You are using this Canadian tobacco entirely for domestic purposes; you do not export it; you do not export the manufactured product?—A. Very little.

Q. Very little. It does not amount to anything. You were buying Canadian leaf for Canadian consumers and manufacturing it under Canadian conditions. Why should he be consulted about the price that the Canadian farmer should get for his tobacco?—A. He was not specifically consulted as to what price, only in a broad sort of way.

Mr. Factor: Why should you discuss it even in a general way?

The Witness: Why?

Mr. Factor: Yes.

The WITNESS: As was brought out yesterday, the British American Tobacco Company have a big interest in our company, and if Mr. Harrison is recognized as an expert in leaf tobacco and if Mr. Buell can get the benefit in a general way of Mr. Harrison's knowledge of world conditions and world markets and what not, it seems to me a perfectly logical thing to do.

By Mr. Sommerville:

Q. To manufacture Turret cigarettes you do not need to know world conditions?—A. No, sir.

Q. You are manufacturing some of them, some part of them out of Canadian leaf produced in Canada, manufactured in Canada and sold only in Canada. Now, why should he have a finger in fixing what the Canadian farmer gets for his tobacco.

Mr. KENNEDY (*Peace River*): Is the price in the Canadian market related at all to the world price?

Mr. SOMMERVILLE: Not at all.

Mr. ILSLEY: Is the price of the leaf?

The WITNESS: Frankly, I do not know what you are driving at.

By Mr. Edwards:

Q. In reading over page 16, which sets out the duties on tobacco coming in from the United States to Canada, I was wondering if American tobacco and Canadian tobacco are competitive on the English market?—A. No, sir.

Mr. SOMMERVILLE: No. There is 40 cents per pound preference on Canadian tobacco in the British market, so they are not competitive at all, and there is a 40 cent duty on American tobacco, coming into Canada and, therefore, the Canadian leaf is fully protected.

The CHAIRMAN: The point Mr. Sommerville has been stressing, Mr. Miller, is, without doubt, of great importance to the committee. Here we have a Canadian produced commodity largely consumed in Canada. We will not, for the moment, speak of the excess crop for the last year or two. We would like to know just why a very powerful influence in the United States should be consulted at all in regard to the prices to be fixed for Canadian tobacco. But there is another point, too, that should be kept in mind and that is that, apparently, prices are fixed not by competitive market conditions but are named, in this instance, by your company.

The WITNESS: Yes.

The CHAIRMAN: So that the committee, I think, is vitally interested in getting a full explanation of that point.

The WITNESS: Well, I would like to clear up one part of your statement, Mr. Stevens, to start with, to try to simplify matters. Are you making the point that there is somebody in America doing this?

The CHAIRMAN: It happens to be that way.

The WITNESS: That is the way I understand your statement.

The CHAIRMAN: It happens to be American.

The WITNESS: Well, Mr. Harrison's headquarters are in London. I just wanted to get that clear. Mr. Harrison goes all over the world, and the British American Tobacco Company buy leaf tobacco.

The CHAIRMAN: But from the letter that is cited in Mr. Sutherland's report, from your own evidence and other information, it is apparent that consultations do occur, and I think we are entitled to know just what the relation is between the American market and, if you like, the British Imperial Tobacco Company's part in it as well, and the Canadian. Because frankly, I do not see why you should be influenced by that at all?

The WITNESS: Well, we are only influenced just in—if Mr. Harrison's name had not in some way been brought out in this thing, and you referred to some letters,—

The CHAIRMAN: Well, it is in the evidence anyway.

Mr. SOMMERVILLE: It is in Mr. Sutherland's report.

The WITNESS: Yes. As I recall it, there were several rather, I think, ugly inferences there.

The CHAIRMAN: There is no ugly inference in it at all.

By Mr. Sommerville:

Q. May I put it this way: The Canadian producers are producing Canadian leaf for your requirements?—A. Yes.

Q. And for their protection this government puts a duty of 40 cents a pound on leaf coming into Canada?—A. Yes.

Q. And you could pay up to 40 cents a pound for that leaf before you begin to compete with American Tobacco?—A. That is right,—quality for quality.

Q. Quality for quality, I will agree with you there?—A. Yes.

Q. Why in the name of conscience do you have to consult somebody in the United States as to what you are going to pay the Canadian farmer for his leaf?—A. We don't. I made that statement.

Q. Why these conferences, then, about what you are going to pay, or how much you are going to buy, or what you are going to do with the Canadian producer?—A. Well, may I put it this way—

Mr. FACTOR: Just a minute.

The CHAIRMAN: Wait now, let Mr. Miller answer the question.

The WITNESS: May I try to illustrate?

By Mr. Sommerville:

Q. Yes, anyway you like. It is information we want?—A. If you were a large stockholder, in, we will say, a bakery,—any business—but you are not operating it, or were operating something else, would you not like to consult with those people as much as you could about the business, and particularly if you had any knowledge, or peculiar knowledge of any branch of that industry. And if you did have that peculiar knowledge of any branch of the industry, would you not discuss matters with them?

Q. Yes, perfectly naturally?—A. That is the only point.

Q. But you have already stated that Mr. Harrison does not know the first thing about Canadian leaf. He never bought a pound of it?—A. I didn't say he didn't know anything about it.

Q. Well, does he?—A. I don't know. He must know something about it, the quality or something.

Q. Does he buy it?—A. No, he has never bought any.

Q. Does he deal in it?—A. No.

By Mr. Factor:

Q. You don't expect this committee to believe that when your Mr. Buell talked to Mr. Harrison, the price of Canadian leaf was not discussed, do you?—A. No, not at all.

Q. You did discuss that with Mr. Harrison?—A. I dare say.

Q. Why should Mr. Harrison be consulted as to the price paid for Canadian leaf?—A. It is just as I stated. I am free to confess that I don't know what you are driving at.

By Mr. Sommerville:

Q. Mr. Miller, there are 1,500 growers out there sweating day and night?—A. Yes.

Q. To try and grow that crop, and they are asking that same question, and they are asking it of you through this committee. It is up to you to tell us, if you can?—A. I have told you to the best of my ability.

Q. All right, then?—A. Just a second, till I see if there is anything else to add. Mr. Buell just reminds me that we have been trying to build up an export market for this Canadian tobacco, to use our influence. We have been criticized for it. Mr. Harrison, having headquarters in London, has a contract with the Imperial Tobacco Company, and we wanted to find out about general market conditions; in that way he had that contact, and we felt we could build up a business there. I don't mean that is the only reason, but that is among the reasons for discussing it.

Mr. ILSLEY: This does not convince me at all. Would you follow that up, Mr. Sommerville?

Mr. SOMMERVILLE: I don't think you can get any farther.

Mr. ILSLEY: I think, Mr. Chairman, that I ought to say his answers were unsatisfactory, as an explanation. Speaking as a member of this committee, I want to say if he has not any better explanation than that, he has not any explanation.

The WITNESS: Well, the point at issue as I understand it—I would like to be honest about it. I am not holding back anything.

Mr. ILSLEY: No.

The WITNESS: Does the committee want to know why we discussed—why Mr. Buell or any of us ever discussed the question of Canadian tobacco, price, quality or anything about it?

Mr. ILSLEY: How much you should pay. Why are you discussing that, first? That ought to be an easy question to answer. There are several explanations that occur to me—they may all be wrong—but you won't give any.

The WITNESS: Well, let me get you down—let me understand, if I may. I am honestly trying to find out.

By Mr. Factor:

Q. You understand our question. We have questioned you for half an hour on the same point. Just give us an answer.—A. I have made the statement that Mr. Harrison does not dominate or name the prices that we will pay for tobacco.

By Mr. Ilsley:

Q. That is true; I know that. But you confer with him about it?—A. Well, we don't have to confer with him about it, and we don't feel that we have to confer with him about it.

Q. But you do, every year?—A. Well, if it happened to be; if Mr. Harrison was over here, in the United States, or happened to be down. Mr. Buell has to go down to the States to buy Virginia tobaco, and naturally sees Mr. Harrison and talks to him about it. But there is no reason. We would not hold off buying, or naming our prices or anything else. It has not got anything to do with the prices that we name.

By Mr. Sommerville:

Q. But your statement read to us a few minutes ago was that a discussion did take place, and Mr. Harrison did feel that the prices were higher than they

should be, the prices paid by you?—A. Yes, previously.

Q. May I suggest to you then, looking at page 11 of your brief, that the price in the United States in 1929 was 18 cents, and it was 29 cents in Canada? —A. From that 18 cents, to make it comparable, we have deducted $1\frac{1}{2}$ cents, and there is at least another three-quarters of a cent to be deducted.

Q. I don't care about the per cent. It is the ratio I am after.—A. Oh, all right.

The CHAIRMAN: Take the last column.

By Mr. Sommerville:

Q. If you want to, take the last column. In the United States it was 16·5 per cent for that year.

The CHAIRMAN: Cents.

By Mr. Sommerville:

Q. $16\frac{1}{2}$ cents per pound?—A. Yes.
Q. The average?—A. Yes.
Q. And in Canada it was 29 cents?—A. Yes.
Q. In 1930, it was 32 cents in Canada?—A. Yes.
Q. And it was down to 10 cents in the United States?—A. Yes.
Q. A drop of 60 per cent?—A. In the United States.
Q. In the United States?—A. Yes.
Q. Brought about by the buyers?—A. Well, I don't know. I am not familiar with that.
Q. Who else would bring it about?—A. Well, I presume so; over-production or what not.
Q. Of which the British American is a very large buyer?—A. Yes.
Q. Of which Mr. Harrison is a very large buyer?—A. Yes.
Q. In the next year, 1931, it was driven down to 7 cents?—A. Yes.
Q. In other words, in two years it had dropped from $16\frac{1}{2}$ cents to 7 cents in the United States?—A. Yes.
Q. And Mr. Harrison was in charge of the leaf buying there?—A. For the British American.
Q. For the British American?—A. Yes.
Q. Their market opens earlier than the Canadian market?—A. There are various dates.
Q. But it is generally earlier?—A. Yes.
Q. So that, having established a 7-cent price in the United States, Mr. Harrison was interested in seeing your Canadian price driven down, I suppose? —A. Not any more so than in line with the previous conversations, sir.
Q. In line with what conversations?—A. Well, I mean what I mentioned in my memorandum; and as I said before, they had various conversations over a period of time, and it was generally thought this previous year's prices were too high.
Q. But with 40 cents a pound duty, what right had anybody to try and break down the farmer's price? There was that duty set for protection to him?—A. Well, that is a pretty big question which I have endeavoured to answer in my brief, which you have not allowed me to read, sir.
Q. At any rate, that was the price in the United States at the time these conferences took place, or in the year 1931?—A. Well, yes, I suppose so.
Q. Just while we are discussing it, you were saying that the British American did have a large interest in the Imperial Tobacco Company. They have a large interest in the Imperial Tobacco Company of Canada?—A. Yes.

Q. Just while I have it before me, I will get that interest on the record? —A. Yes.

Q. The British American Tobacco Company owned 275,080 preferred shares in your company?—A. All right.

Q. And 4,091,418 ordinary shares?—A. As per the record. I have no recollection.

Q. Yes, 4,091,418 shares out of a total of 9,451,032 ordinary shares?—A. All right, sir. I will take it at that.

Q. I am reading your statement?—A. Yes, sir.

Q. If it is not correct, I want to know?—A. Well, it is all right.

Q. While I have the record before me, I observe that in addition to that holding, there is a holding of 1,363,806 shares by the Tobacco Securities Trust Company of London, England?—A. Yes.

Q. Do they represent the British American Tobacco Company or the Imperial Tobacco Company of Great Britain and Ireland?—A. I have no intimate knowledge of who the Tobacco Securities Company are, exactly.

Q. But at any rate, those two blocks of stock would very largely control the voting of the company?—A. Yes.

By Mr. Kennedy (Winnipeg):

Q. Mr. Miller, what influence, if any, has the price paid in Canada for the Canadian crop upon the price that would be paid in the United States for the American crop, or vice versa?—A. No direct bearing at all.

Q. Well, indirectly then?—A. Well, nothing. I would not say there was any bearing, no bearing at all.

By the Chairman:

Q. There ought not to be?—A. No.

By Mr. Young:

Q. What are the factors that decide in your mind what price you will pay? Do you look at the British market or look at the domestic market, or what factors come into the problem when you are making up your mind as to what price you are going to pay for tobacco in any given year?—A. What factors enter into it?

Q. Yes.—A. Well, the quantity of tobacco we might have on hand, the quantity of tobacco that is grown in the crop, the type of the crop. In regard to the price, as I have tried to indicate, and tried to put in our brief, we felt that this price previously paid, for any development of an export business to compete with, largely, Empire tobaccos, was entirely out of line.

By the Chairman:

Q. On that point, how do you justify that statement that the price of the previous year was out of line, in view of the protection given in the British market to empire tobaccos?—A. Well, by the prices, as far as we know, that other empire tobaccos were being sold at.

Q. But they are not competitive with other empire tobaccos, as I understand it, are they?—A. Yes.

Mr. SOMMERVILLE: In Canada.

The WITNESS: No, in England, you mean?

The CHAIRMAN: In England.

The WITNESS: That is what you meant, is it not?

By the Chairman:

Q. Are not our tobaccos, our flue-cured Virginia leaf, competitive chiefly with the American flue-cured Virginia leaf, which pays 40 cents a pound duty to enter the British market?—A. No, there are a lot of other empire-grown tobaccos that get the same preference in the British market.

Q. I know they get the same preference?—A. And they are competitive, too.

Q. But on type?—A. On type, yes.

Q. Our tobacco is chiefly competitive with the Virginia leaf?—A. In the British market?

Q. Yes.—A. No, I would say—well, of course it has the advantage of the preference, but I mean there is very definite competition in the British market with Canadian leaf by other empire-grown, flue-cured tobaccos; very definitely, sir, from all the information and belief that we have got, and we have indicated that or tried to.

By Mr. Young:

Q. Can you tell us what price our tobacco was selling for in the British market in 1931?—A. No, I don't think we have got it. Our tobacco?

Q. Yes, our flue-cured tobacco?—A. We have government statistics, yes.

Mr. SOMMERVILLE: We will get some information upon the question.

By Mr. Senn:

Q. Just one more question before Mr. Young leaves that matter of the influences in price fixing of tobacco. Do you take into account the cost of production at all?—A. We have regard for that, naturally.

Q. Are you convinced that the average price paid this year is comparable with the cost of production?—A. Yes, we firmly believe so.

Mr. SOMMERVILLE: We are going to deal with that.

Mr. YOUNG: Mr. Miller was going to answer my question about the price in Great Britain.

The WITNESS: At page 13, you will find a table of prices. Those are given out by government authority in England.

Mr. SOMMERVILLE: Those are not the same grades.

The CHAIRMAN: Taking Mr. Miller's own statement, he says that there are other empire products in competition with ours. Your South African tobacco brought a price of 17·8 in 1927; Canada brought a price of 25·2, which was higher by five cents, seven cents and eight cents than any of them.

The WITNESS: What year?

The CHAIRMAN: 1927. It is in your own brief.

The WITNESS: Yes.

By the Chairman:

Q. In 1932, South Africa got 14·9?—A. Yes.

Q. And Canada got 12; and in 1932 a finer type of tobacco came from Canada than she ever produced in her history?—A. South Africa was 14·9, and Canada was 12, yes, sir.

Q. That makes a difference of 12 cents in Canada, whereas it is only 3 cents difference in South Africa?—A. If you take it at that; look at the previous year.

Q. This is the thing that is worrying me: That followed your arbitrary cut in 1931, from 32 cents in 1930, down to 22 cents in 1931?—A. Yes.

The CHAIRMAN: There is a sequence of events here which, in my opinion, from the evidence we have heard and from the evidence you have given, seem to

indicate a control over the prices to the grower other than ordinary mercantile factors. I must say it is an appalling thing to me, and there is no explanation forthcoming. It is difficult for members of this committee to ask you technical questions and all that, but there are these stubborn facts. Take this fact, Mr. Miller. Explain this to me: In the United States, where Mr. Harrison is one of the dominating factors, the price of tobacco fell from 10 cents to 7 cents from 1930 to 1931; and in that same year, Mr. Lea comes into Canada from the United States to your company, from Mr. Harrison, and there is a drop from 32 cents to 20 cents. Now, there is a significant, and I was almost going to use the word "sinister" synchronization of facts there that ought to be explained. Mr. Miller we are not getting the explanation.

Mr. SOMMERVILLE: That is the crux of the whole situation.

The CHAIRMAN: Don't forget this, Mr. Miller. I have emphasized this. I told you yesterday that I thought you were being frank with us, and I think you were yesterday. I told you yesterday, and I can't express this too strongly, we have heard in this evidence from growers of tobacco in Canada, statements that challenge parliament.

The WITNESS: Yes.

The CHAIRMAN: And parliament stands challenged.

The WITNESS: Yes.

By the Chairman:

Q. But Parliament stands challenged to justify the treatment the growers got, and the man sits beside you who apparently, according to the evidence we have, came in from the States after his association with Mr. Harrison; and, by the way, it would be advisable for you to read what Mr. Roosevelt's government thought of the prices Mr. Harrison and his confreres fixed down there. I tell you that there is a situation that has got to be cleared up?—A. Is it fair, Mr. Stevens, if I may ask; if you have had time to read our brief.

Q. I saw it published in the press, by the way; I saw it published in the press with answers to questions I was supposed to have given that I never gave at all; so that brief was published in the press.

Mr. Miller, I have gone through your brief, not every bit of it, but I have gone through it partly. Your brief does not answer the vital points. That is the difficulty with the brief?—A. I see.

Q. And that is the difficulty with our examination of you this morning, vital points that concern us are not answered?—A. Can we be allowed to try to prepare a statement or try to see if we can put it down in some clear way. If you have any feeling that I am holding back anything, sir, I wish you would get that out of your mind. It may be that there may be something that I have no knowledge of. I am not trying to hold back anything from you, sir.

Q. I think you are confronted with a very serious difficulty. I can apprehend it. I think if you answer our questions frankly and to the point the answer must undoubtedly cast reflections on the actions of some of your own staff and your own policy. That is the difficulty you are confronted with, and you cannot have it both ways, Mr. Miller. I think if you will answer the questions as they merit an answer you will find there will be some reflection cast upon your own staff. That is the way it appears to me from the evidence that we have had from other people; we have had other evidence, you know? —A. Yes, I know.

Q. I do not disbelieve these men. The men who gave us evidence during the last week or so gave us their evidence very frankly, and they impressed the Committee I think very favourably; and there are facts stated there, facts in the Sutherland Report and in your own brief, which present a situation

which must be cleared up, as I have said. And I think the questions which Mr. Factor, Mr. Ilsley, Mr. Sommerville and members of the Committee have asked you ought to be, and must be, answered?—A. All right, sir; we will certainly endeavour to do it to the best of our ability.

By Mr. Kennedy (Winnipeg):

Q. Having in mind, Mr. Miller, that the Canadian crop purchased by your company and used for domestic purposes has not to meet competition from outside—?—A. In Canada, no sir.

Q. Having that in mind, where you pay in one year a much lower average price for your crop than you did in another year, is that lower price to the producer reflected in a lower price in your manufactured product to the consumer?—A. To the consumer; over a period of time it is sir. I think we have submitted that.

Q. It is?—A. It is, yes sir; it has been reflected.

Q. Or has the general price, the Canadian price for cigarettes been pretty well maintained?—A. Of course, we cannot change the retail price several times a year, but there has been a downward trend, sir; there was a statement about that on page 45.

Mr. SOMMERVILLE: Before we get into that—

The CHAIRMAN: We are going to get all that side of the question, Mr. Kennedy.

By Mr. Sommerville:

Q. Mr. Miller, you have referred to the fact that this Canadian tobacco must compete with other Empire tobaccos on the British market, and that there is therefore a condition which dominates the price here?—A. It has a big influence on the price.

Q. I am going to ask, if you will just step aside for a moment, Professor Leitch to take the stand?—A. Yes, sir.

The Witness retired.

Mr. ARCHIBALD LEITCH, called and sworn.

By Mr. Sommerville:

Q. Professor Leitch, you have exported a great deal of Canadian tobacco to the British market?—A. A considerable quantity, yes.

Q. In the years 1931, 1932, and 1933?—A. Rather the crops of 1930, 1931 and 1932.

Q. And you are familiar with the conditions over there, you have been over there lately?—A. Quite frequently in the last four years, yes.

Q. And have just returned quite recently from that particular market?—A. Yes.

Q. Will you tell us what is the position of Canadian leaf on the British market; does it command a premium over other Empire-grown leaf on that market?—A. Yes, up to and including the crop year of 1932, that is as much of the business with the Old Country as has been settled, and it has just been settled, and the 1933 business has not started yet in any volume for various reasons; but up until and incluuding the three crops grown in Canada, the four operations between 1930 and 1932, particularly the last two years, Canadian tobacco did consistently receive in nearly all instances of sales a consistent premium above flue-cured tobaccos from any other source in the Empire.

By Mr. Young:

Q. How much of a premium was it?—A. It depended on the volume, it was very high in the 1930 and 1931 crop; it was less in our tobacco arising out

of the 1932 crop. I am speaking solely of sterling price, not the Canadian price, as the exchange question comes in.

By Mr. Sommerville:

Q. We have to speak in a common language, therefore we speak in terms of sterling exchange?—A. I might cite an instance in connection with the 1930 crop, which was not a good crop as compared with 1932; it happened that I was in Belfast settling up for my 1930 business in February of 1931, and it happened at the same time that quite a large buyer in Southern Rhodesia tobacco, which is the chief source of Empire flue-cured tobacco other than Canada, was there at that time; I settled with Gallagher's for 2 shillings a pound for the Canadian tobacco; it happened at the same time that the dealer had a small deal in Rhodesian tobacco—not the same year's crop, because they grow in our winter, but fairly comparable—and he settled on the basis of a shilling and a penny a pound for tobacco that grade for grade looked infinitely superior on the basis of colour to our tobacco, also on general quality, but our tobaccos had a flavour more near the American type of tobacco than the Rhodesian had; and therefore it has more possibilities of use, and it has demonstrated greater possibilities when used as a substitute for American in manufacturing brands in which they cannot use Rhodesians to the same extent. And while over there with one of the chief officials of the tobacco division on behalf of Canadian growers made an intensive study last summer, last June and July, and in the course of this we interviewed manufacturers large and small as to their experience with Canadian tobacco. I am speaking of those who had already had experience—and they without exception, or with the exception of the Imperial of Great Britain with whose buyer I was not fortunate to meet at that time because of his absence, with the exception of the Imperial of Great Britain, every manufacturer who had had experience with Canadian tobacco said that Canadian tobacco on the basis of its greater similarity to American than any other Empire growth would always command a consistent premium above that of Rhodesia, or any other than non-Empire sources. Now, the question as to the premium they could get, in any one year, of course, might be influenced by conditions especially relating to the supply of Canadian tobacco. If the supply is too large at any one time, or if any one year's growth is too large to meet requirements of those who have had experience in substituting American with Canadian, the surplus has to be sold to manufacturers who have not uses of that kind; then the fragment over that keenly demanded amount must naturally be sold to others.

Q. But the premium does exist?—A. Yes, absolutely; on the intrinsic merit of tobacco, as explained.

Mr. Heaps: Can you give us any idea about production costs?

The Chairman: We have examined this witness before. I just wanted to call him for this special point, because he has knowledge of and acquaintance with it of recent date.

Mr. Ilsley: Did this gentleman give evidence before?

Mr. Sommerville: Yes, Mr. Leitch gave his evidence.

By Mr. Young:

Q. When you export your tobacco to the Old Country and sell a portion of it at home here, can you tell us the difference in the price you receive?—A. With the exception of 1930 we have received—I am speaking of equal quality now, that is grade for grade and quality for quality, assuming it to be equal, since 1930, we got a little more for it in 1930, but since then we have got less for what we exported to England and sold there; we got less for what we sold in England since then.

Q. Less than what you sold it at here?—A. Yes.

By Mr. Sommerville:

Q. But exchange was a factor?—A. Exchange was a very serious factor.

By Mr. Senn:

Q. Is there any publicity campaign, or anything of that nature, being carried on in regard to cigarettes or Canadian tobacco in the British Isles?—A. Not any consciously devised plan. It happens that the control over the sale of tobacco concentrates in very few hands. You have to influence a few dozen manufacturers. The consumer does not come in to it.

Q. Have you tried to organize patrons or specialize?—A. It has been done more or less personally by the trade commissioners over there and by people in the business, like the Canadian Leaf Tobacco Company in the business of exporting in a business way, and large growers like myself.

Q. What effect has that had?—A. If we can gauge it by the increase in the business relatively taking a whole average of four years—.

Q. You do not understand; my question is as to whether something should be done along that line?—A. I am not prepared to suggest anything further. I think everybody, the Trade Commissioners and the agricultural representatives in the High Commissioner's office and the High Commissioner himself and the growers themselves are doing all that is within our capacity to know how to do. We might do a lot better.

By Mr. Kennedy (Winnipeg):

Q. If competition is controlled, advertising would not do much good, would it?—A. You mean, consumer advertising.

Q. If the competition is controlled your advertising would not help very much. Put it this way; if there is a ring that fixes prices, and is sufficiently powerful to fix prices, then the matter of advertising your product won't help very much.

The CHAIRMAN: It might stimulate consumption.

The WITNESS: Personally I have no great confidence in advertising directly to the British consumer, I am speaking now on the basis of its effect on the trade, and I say that for many reasons; in other words, if we are going to get the widest possible distribution of our products, it must be as a substitute for American in already established brands of pipe and American tobacco.

Mr. SOMMERVILLE: Directed to those who will make the substitution. Thank you very much Mr. Leitch, we appreciate very much your giving us this information.

By Mr. Ilsley:

Q. I presume the price here is determined by the price in England; is that a governing factor?—A. No, it is not a governing factor.

By Mr. Young:

Q. Is it a factor?—A. Necessarily.

Q. Is it a large factor?—A. It is becoming a more important factor, I will say that.

By Mr. Ilsley:

Q. Do I understand that the Imperial Tobacco Company can pay just what they like to people in Canada, that there are no determining factors?—A. No, there are many factors that must be taken into consideration in determining the price.

Q. Suppose they offered 10 cents instead of 20 cents; would people have to take that?—A. I would not; I might eventually take 5 cents, but first I would try to improve the situation.

Q. But the growers as a whole, would not they be obliged to take it?—A Up to this last year there was no really definite organization among the growers.

By Mr. Sommerville:

Q. Up to 1930 there was no organization for curing and packing the producers product by the producer; the producers did not grade their tobacco, they sold it in the barn?—A. Yes.

Q. And the producers did not grade it in such a way that they could ship it to the English market?—A. That was not actually brought into effect until 1933; prior to that time that did not need to be used, because of price or other reasons that came in.

Q. There was an attempt made in 1932?—A. Yes.

Q. But it was not done until 1933?—A. No.

Q. But up to that time the buyer was the man who did the grading, and if he wanted to export he exported the grades that were required in the English market? -A. One class of buyers did, the speculative leaf merchants like the Canadian Leaf Tobacco Company.

The CHAIRMAN: Haven't we got all that, Mr. Sommerville?

Mr. SOMMERVILLE: I think we have.

The CHAIRMAN: Thank you, Mr. Leitch.

The Witness was discharged.

Mr. GRAY MILLER, recalled.

By Mr. Sommerville:

Q. Referring to your statement: the first factor you take into consideration in arriving at the price you pay the producer is the quantity that you have on hand?—A. That is one of the factors.

Q. And will you please tell us what quantity of flue-cured tobacco you have in stock in Canada at the present time?—A. I gave you a statement of it, sir, in your letter yesterday.

Q. I wish you would just refer to it. Here it is. On March 31, 1934, you had these quantities of leaf on hand: you had first of all your domestic leaf Ontario grown, flue-cured, 24,069,887 pounds?—A. Yes.

Q. Ontario grown burley 20,422,460 pounds?—A. Yes.

Q. And Quebec-grown cigar leaf 2,830,791 pounds?—A. Yes.

Q. And Quebec-grown smoking leaf, 855,411 pounds?—A. Yes.

Q. And of imported leaf you had Eastern North Carolina and South Carolina 7,997,863 pounds?—A. Yes.

Q. Middle and Old Belt 4,579,108 pounds; Maryland Perique, Latika and miscellaneous 535,529; Turkish Leaf 461,745; imported wrapper, binder and filler leaf for cigars 839,241 pounds?—A. Yes.

Q. That is a total of imported leaf of 14,413,486 pounds?—A. Yes.

Mr. SENN: Would not it be well to set over against that the requirements?

Mr. SOMMERVILLE: I am going to get that.

By Mr. Sommerville:

Q. When you buy your leaf, Mr. Miller, you mature it for a period of years, do you not?—A. Yes.

Q. And it takes, I understand, an average of about two years?—A. Two to three years.

Q. But, on the average?—A. Two years.

Q. Two years, or 18 months?—A. It would be two years.

Q. So that the crop for 1932 would be the crop which would mature in 1934 and be ready for use; is that about right?—A. The latter part of 1934.

Q. Approximately?—A. Approximately, yes.

Q. And that crop that you bought in 1932 amounted to 14,560,800 pounds, less 3,500,000 pounds that you exported to the Imperial Tobacco Company of Great Britain?—A. Yes.

Q. So that what you bought for your own requirements would then be 11,000,000 pounds of the Ontario flue-cured crop for 1932?—A. Yes.

Q. Could you tell us how this 24,000,000 pounds of Ontario grown flue-cured tobacco is broken up, how much you have got of 1931, how much of 1932, and how much of 1933? You will have your figures?—A. We have not got them, sir. It is quite a job to work it out.

Q. Then that also includes some of the quantities that may be on hand of lower grades of these crops?—A. Yes.

Q. Well, have you got them graded in your records?—A. Yes, sir.

Q. Well, would you be good enough to give us the quantities each year in the grades?—A. That is, the quantity of each grade by years.

Q. By years?—A. Productions?

Q. Yes, that is it, and so also with your burley?—A. Yes, Canada flue-cured and burley only?

Q. Oh yes, I am not interested in the others to the same extent. And the same with reference to your Quebec leaf?—A. All the domestic leaf?

Q. All of the domestic leaf, yes. Now, what amount of domestic leaf did you use in the years 1932 and 1933? Mr. Miller, you could give us the total approximately, and then give us separately a detailed statement showing the grades used?—A. Well, for what years did you ask, sir?

Q. Say for 1931, 1932 and 1933, if you have it?—A. This happens to be for the government fiscal year ending March 31, 1931.

Q. This is flue-cured?—A. Yes, sir, flue-cured. Roughly 5,700,000 pounds; and next year 5,700,000 pounds; the next year 6,500,000 pounds; and the next year 7,300,000 pounds.

By Mr. Senn:

Q. Do I understand from that, that the percentage of domestic tobacco used is getting larger in comparison with foreign leaf?—A. Yes, sir. Also volume. But the percentage is being increased, sir, in fact, as fast as we feel that it is safe to do it with the crops that we have that are matured.

By Mr. Sommerville:

Q. You will file then the statement of how the grades are broken up?—A. On hand?

Q. On hand; and the consumption by grades. Do you consume it by grades?—A. It can be had, sir.

Q. If it is not a matter of your regular record I will not insist on it?—A. I ~~will try to give it to you, sir, for what it is worth.~~

Q. Now, I want to ask you this further question: When the price to the producer was reduced from an average of 32 cents in the year 1930 to an average of 16 cents or 17 cents in the year 1932, how much did you reduce the price of cigarettes to the consumer?—A. The price of cigarettes to the consumer?

The CHAIRMAN: Take some typical brand.

By Mr. Sommerville:

Q. Give me a typical brand, Turretts, for instance.—A. Page 48.

Q. That deals with the whole product?—A. Well, so far as any reduction in cigarettes is concerned, that is, in Turretts itself?

Q. Yes.—A. Well, there has been no decrease in price because of any change in the price of tobacco, but there are a lot of governing factors in the situation.

Q. And does that also apply generally to the various brands of cigarettes, that same answer?—A. You mean throughout Canada?

Q. Yes?—A. Yes, sir.

Q. Then the price paid for tobacco, if it is not passed on to the consumer reflects itself in a higher profit to the manufacturer?—A. Of necessity, yes.

Mr. SOMMERVILLE: I will leave it at that point.

The CHAIRMAN: We will adjourn to meet at eleven o'clock on Tuesday.

Mr. FACTOR: Continuing with Mr. Miller?

The CHAIRMAN: Yes.

The committee adjourned at 1 p.m. to meet again on Tuesday, May 8, 1934, at 11 a.m.

House of Commons, Room 368,

May 8, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 a.m., the Hon. H. H. Stevens, presiding.

Mr. Norman Sommerville, K.C., of Toronto, and Mr. W. W. Parry, of Toronto, appeared as counsel for the committee.

The Chairman: The minutes of the last meeting simply record the witnesses heard and documents filed. I declare the minutes adopted as read.

Carried.

Have you any documents or communications to file, Mr. Sommerville, before we proceed?

Mr. Sommerville: As we were discussing in the course of the evidence, the statement of purchase contracts for the year 1931, handed in by the Imperial Tobacco Company, I think perhaps it would be advisable to have it entered on the record so that those reading the evidence will understand the reference.

The Chairman: That is right.

IMPERIAL TOBACCO COMPANY OF CANADA LIMITED
STATEMENT OF PURCHASE CONTRACTS
FLUE CURED TOBACCO—1931 CROP
NORFOLK DISTRICT

—	Pounds	Average Price
1931		
October 6 Tuesday	3,774,400	·2765
7	914,900	·2612
8	854,700	·2253
9	182,000	·2026
10	213,000	·1912
12	585,700	·1855
13	1,213,700	·1950
14	122,000	·1661
15	412,000	·1636
16	589,000	·1736
17	69,500	·1744
19	442,500	·1663
20	22,000	·1500
21	104,000	·1599
November 8	35,000	·2300
9	65,000	·1689
10	124,000	·2323
11	44,500	·1645
12	77,000	·1475
13	314,500	·2396
28	30,000	·2500
December 2	40,000	·1200
4	38,000	·1750
21	517	·1500
22	20,000	·1290
29	8,000	·2750
31	30,000	·1700
January 9, 1932	6,000	·1000
	10,331,917	

Mr. Sommerville: I think Mr. Miller has some documents and papers that he desires to file with us this morning.

The Chairman: Before we proceed, I should like to mention a matter that has been brought to my attention by a letter from the National Associated Women's Wear Bureau of Montreal. I shall read it, because it refers to a matter which affects the committee, and I shall indicate what answer I gave. The letter is dated May 5, 1934, addressed to me, and reads as follows:

> Dear Sir,—About six weeks ago I received a visit from a man who was seeking information in connection with the Stevens' Commission inquiry.
>
> This person informed me that he had visited various members of our industry with a view to finding out what complaints they had to make against the T. Eaton Company, and that he had been advised by them to call on me.
>
> As his question was so pointed, I became suspicious and asked him who he was working for. He informed me that he had been engaged by Professor Goforth, and that Professor Goforth had been engaged by the Stevens Commission. I naturally pointed out to him that anyone could make that claim, and before answering any questions, I would like to have him show proof of the accuracy of his claim. He promised to bring me this proof, but has not returned since. During our conversation, he informed me in response to my inquiry as to his qualifications for this particular work, that he had been in the employ of the C.P.R. company for some years gathering statistics regarding the source of shipments of various products.
>
> The man is stout and short in stature. In view of his failure to return, I would appreciate it if you would be good enough to inform me as to whether Professor Goforth has been engaged by the Commission of which you are the chairman.
>
> Thanking you for your kind attention to this matter, I remain,
>
> Very truly yours,
>
> NATIONAL ASSOCIATED WOMEN'S WEAR BUREAU,
>
> J. P. Lever,
> *Nat. Ex. Director.*

Now, obviously, this individual, who apparently has been visiting a number of business concerns in the country, representing himself as more or less representing this committee, is doing so without the slightest warrant, because neither Professor Goforth nor this man is representing this committee at all. My opinion is that Professor Goforth is retained by T. Eaton Company, to prepare their brief. I thought it was advisable to bring this to the attention of the committee, and to indicate publicly that anyone representing this committee or claiming to represent this committee, must bear an official letter from the Chairman, showing that he is representing this committee, otherwise we will have individuals going about the country claiming to be representatives of the committee, and getting information to which they are not entitled. I thought I should bring that to the attention of the committee before we proceed. All right, Mr. Sommerville.

Mr. Sommerville: I was reading a letter from the Imperial Tobacco Company, Mr. Chairman. In all fairness, I think it should be read, as it indicates the documents that are being filed at the present time.

GRAY MILLER recalled.

Mr. SOMMERVILLE: This is in response to the request of the committee at its last session, and certain requests that are coupled with them from the counsel of the committee. The Imperial Tobacco Company write as follows:—

Dear Mr. SOMMERVILLE: During the proceedings of the Special Committee on Price Spreads and Mass Buying held at Ottawa on Thursday and Friday last, May 3 and 4, requests were made for certain information, statements, etc., which were not available at the time, and which I advised the committee I would be only too pleased to have prepared as soon as possible. In this connection I hand you herewith the following:—

1. Copy of Agreement between British-American Tobacco Co., Limited and Imperial Tobacco Company of Canada, Limited, dated 7th July, 1921, effecting the transfer from the former to the latter Company of certain trade marks, patent, etc., and the goodwill attaching thereto, for all of which there were issued to the British-American Company 400,000 ordinary shares of Imperial Tobacco Co. of Canada, Limited, of the par value of $5 each.

I believe the agreement submitted is perfectly clear and outlines the full intention, and I particularly direct your attention to clause 9 thereof from which you will note that the British-American Company were not excluded thereby from engaging in the manufacture of tobacco in Canada.

2. Copy of agreement dated 23rd September, 1921, between Imperial Tobacco Company of Canada, Limited and the Trustees appointed to subscribe for and take delivery of 420,000 ordinary shares of the aforementioned company on behalf of a specified number of officers and employees of Imperial Tobacco Company.

In connection with the foregoing I wish to particularly draw your attention to the fact that payment for the shares was provided for to the extent of $2 per share through payment made by the company to the trustees, and the extent of $3 by payment in cash by the employee to the trustees.

I regret that I was not in possession of the full details of this agreement at the time that the matter was being discussed last week, and as a consequence may have misled the members of the committee to some extent when dealing with this subject. I trust you will take the necessary steps to acquaint the members of the committee to some extent when dealing with this subject. I trust you will take the necessary steps to acquaint the members of the committee with the full facts in accordance with these remarks.

3. Statement setting forth the undivided profits of Imperial Tobacco Company of Canada, Limited, and its subsidiary companies as at 31st December, 1933, as per audited accounts. (The period covered for the Tuckett Company is that ended 31st March, 1934.)

4. Statement showing amount paid by Imperial Tobacco Company of Canada, Limited (1912), for its investment in the B. Houde Company Limited, this investment being 4,352 shares of the par value of $100 each constituting approximately 87 per cent of the total issued capital stock of 5,000 shares.

5. Detailed Auditor's Reports for the past five fiscal years of each of the following companies, if extant:—

* Imperial Tobacco Company of Canada, Limited.
John Erzinger Limited.

Q. That is a distributor?—A. Jobbing house in Saskatoon and Winnipeg.

Q. In the west?—A. Yes.

Q. "James Kirk Limited"; is that a jobbing house?—A. In Hamilton.

Q. "The H. Fortier Company, Limited"; is that a jobbing house?—A. Montreal.

Q. "Scales and Roberts Limited"; a jobbing house?—A. Toronto.

Q. "General Cigar Company, Limited?"—A. Montreal.

Q. A Manufacturing company?—A. At Montreal, cigars.

Q. "Andrew Wilson and Company, Limited?"—A. Cigar manufacturers at Toronto.

Q. Are they also jobbers?—A. No, sir.

Q. "Punch Cigar Company, Limited?"—A. Of Toronto, cigar manufacturers.

Q. "Liggett and Myers Tobacco Company of Canada, Limited?"—A. Montreal.

Q. Manufacturers?—A. We manufacture cigarettes for them.

Q. They have no plant of their own?—A. No, sir.

Q. You manufacture for them?—A. Under an arrangement.

Q. "National Tobacco Company, Limited?"—A. Montreal, snuff manufacturers.

Q. "The B. Houde Company, Limited?"—A. Tobacco manufacturers, Quebec city.

Q. They manufacture cigars?—A. No, sir.

Q. Just tobacco?—A. Tobacco.

Q. Plug?—A. No, pipe and fine cut.

Q. "Quebec Leaf Tobacco Company, Limited?"—A. Quebec city; they handle raw leaf.

Q. "Dominion Tobacco Company, Limited?"—A. Dormant.

Q. "Empire Tobacco Company, Limited?"—A. Dormant at present.

Q. "American Tobacco Company of Canada, Limited?"—A. Dormant at present.

Q. "Imperial Tobacco Sales Company of Canada, Limited, and Imperial Leaf Company of Canada, Limited," of which we have already heard?—A. Yes.

Q. "United Cigar Stores, Limited"; that is a retail chain of stores?—A. Yes, at Toronto.

Q. "United Cigar Stores, Nova Scotia, Limited?"—A. Dormant.

Q. "United Cigar Stores (New Brunswick) Limited?"—A. Dormant.

Q. "The Tuckett Tobacco Company, Limited?"—A. Hamilton, Ont.

Q. Then you also file the crop list books and grading books used by leaf buyers covering the 1931 and 1932 crops?—A. Yes, in that bundle (indicating bundle on the table).

Q. I observe for 1932 they are all complete, but for 1931 there are a few missing?—A. Yes.

Q. You give the reasons for that?—A. Yes.

Q. The men are not in your employ now?—A. Yes, except, I believe,—one is, but these books seem to have been lost.

Q. Then the 7th statement you file is a statement showing the purchases affected under Mr. T. L. Lea's supervision on the 6th October, 1931, the opening day of the market, and statement showing purchases effected under the supervision of Mr. F. R. Gregory on the same day, from which it will be noted that the former purchased a total of 627,000 pounds at an average of $·2779, and the latter 491,000 pounds at an average of $·2704?—A. Yes.

Q. And the 8th is an order from the Imperial Tobacco Company Limited, of Great Britain and Ireland for 1,000,000 pounds greenweight received by you on the 16th November, 1931?—A. Yes.

Q. And then the 9th is a statement showing yield by grades of Canadian flue-cured tobacco purchased by Imperial Tobacco Company of Canada, Limited, in the Norfolk district and in the Essex district of Ontario, separately and combined for each of the crops 1930, 1931, 1932 and 1933?—A. Yes.

Q. Then, contracts covering the purchases of the 1931 and 1932 crops of Canadian flue-cured tobacco?—A. Yes, in these two trunks here (indicating). Do you want them now, sir?

Q. Mr. Miller, shall we take the summer holidays to examine them?—A. It might be necessary.

Q. Then, statements showing net profits, wages, etc., for each of the years 1931, 1932, 1933, resulting from the operation of the following United Cigar Stores located in Toronto. You give six stores located as follows: Bay and Front streets, Bay and Adelaide streets, Yonge and Adelaide streets, St. Clair and Yonge streets, Dundas and Keele streets, Queen and King streets, Sunnyside, and showing also statement of any reduction in the number of employees and statement of weekly wage paid in each year mentioned to each employee in these stores.

Mr. Heaps: Do these wages include salaries?

Mr. Sommerville: These are for the retail stores, the United Cigar Stores. I presume that they mean all the amounts paid whether you call them salaries or wages?

The Witness: In those stores, yes.

By Mr. Sommerville:

Q. Then, 12 consists of statements showing the total factory payrolls for the years ended 31st December, 1931, 1932 and 1933, in each of the manufacturing plants of the Imperial Tobacco Company of Canada, Limited, and subsidiary companies?

Mr. Factor: Wages only, not salaries?

Mr. Sommerville: Wages only, I understand.

The Witness: The total factory payroll. I do not just know what the distinction is between salaries and wages in the factory.

Mr. Factor: It is for everybody in the factory?

The Witness: It includes salaries paid to certain officials and executives in the office—no, it is in the factory; it excludes the factory officials.

Mr. Heaps: You have it for three years, Mr. Sommerville?

Mr. Sommerville: We have it for 1931, 1932, 1933.

Mr. Heaps: Could we have the 1930 wages?

Mr. Sommerville: I presume they were not asked for that. We asked them for the last three years.

Mr. Heaps: I think 1930 would be a better year to go by than other years. It seemed to be the peak.

Mr. Factor: I think we had better go into that question as a separate proposition later on.

By Mr. Sommerville:

Q. The next statement filed is one showing salaries and bonuses paid to all executives, officers, and directors of Imperial Tobacco Company of Canada, Limited, and subsidiary companies for each of the years 1924 to 1933, inclusive? —A. Yes.

Q. The next statement is one showing recapitulation of detailed contracts of purchases of 1931 crop of flue-cured tobacco at both Delhi and Leamington? —A. Yes.

Q. When you refer to the purchases at Delhi and Leamington, these are the points at which your purchases centre?—A. Yes.

Q. They would cover your purchases of flue-cured tobacco in that area?—A. Yes.

Q. With regard to the schedule of tangible assets amounting to $24,036,380.91 for which capital stock of Imperial Tobacco Company of Canada, Limited, of 1912 was issued, I would like to draw your attention to the memorandum on this subject attached to my letter dated 2nd May, 1934, handed to you on Thursday morning last. I believe that the particular point in question is fully covered in the answer to question No. 4 attached to the above mentioned letter. From this schedule will be apparent also the amount of cash that was received by the company in exchange for capital stock issued.

Dealing with the statement that has been requested concerning the amount realized from the operating of Tamblyn's, I wish to advise that this information is not readily available from our current records, and we have nothing to submit at this time, but we have the matter in hand and as soon as the necessary search can be completed, shall be glad to forward the particulars asked for.

Statements were requested showing the consumption by grades of domestic flue-cured tobacco and are now in the course of preparation for each of the twelve months ended 31st March, 1931, 1932, 1933, and 1934, and will be submitted when completed.

Regarding statements showing inventory of domestic leaf by grade and by crop for Imperial Tobacco Company of Canada, Limited, and its subsidiary companies as at 31st March, 1931, 1932, 1933, and 1934, although these figures are available from our records and the records of our subsidiary companies, it takes a considerable length of time to prepare and correlate the same, and the work has not yet been completed in respect of these inventories. However, the figures are in process of compilation and I shall be glad to submit the same when they are drawn up in the proper form.

Statement showing wage scale and changes in same in Imperial Tobacco Company and Subsidiary Companies' factories will be submitted when completed.

Statement showing adjustments in salaries and dates of same effected by Imperial Tobacco Company of Canada, Limited, and subsidiary companies, and explanation of manner of adjustment, will be submitted when compiled.

By Mr. Sommerville:

Q. This is the information which you are filing with the Committee this morning, Mr. Miller, in answer to the request of the Committee?—A. Yes.

Q. And further information is being completed and filed?—A. Yes.

Mr. Sommerville: Along with this letter will be read a section to be entered in the record, a paragraph Mr. Miller requests, in the memorandum dated 2nd May, 1934, in answer to question No. 4. I will hand it to the reporter at a later time.

By Mr. Sommerville:

Q. May I, just for purposes of information, just at this time ask you what or how the buyers crop book is identified with the individual grower; not having seen this—?—A. I think you just go by the name and the description of the location—it is not a very easy matter to say.

By Mr. Factor:

Q. Did you prepare a statement of the volume purchased of the 1931 crop?—A. Yes, sir, it has been submitted.

By Mr. Sommerville:

Q. Can you tell me, what are the particular grades that the buyer puts into his buyers' book?—A. There are two books, aren't there? One is, I think, called the crop book, and—could I see one of them myself to try to explain; I am not thoroughly familiar with all the details.

Q. Yes?—A. That one is called the crop list, that is the first one; what is your question about this? He does not show any grades there, as you will see; he only shows the man's name, the number of acres approximate under cultivation, and his estimate of yield in pounds; and the reference "it is good." That is when the tobacco is growing in the fields, that is the crop list book.

Q. That is the first book?—A. Yes.

Q. Then, I am looking now at J. B. Wilson crop list for 1931?—A. Yes.

Q. And it contains the name of the grower, the acreage that he has under cultivation?—A. Estimated.

Q. The estimated acreage; the statement as to whether it is "good," "medium," or "fair"; the estimated quantity of tobacco that will be produced?—A. Yes.

Q. That is the first book?—A. That is while the tobacco is still growing in the field.

Q. Yes. Then do I understand that when the crop has been harvested and is taken into the kiln and cured that he has another book in which he enters the condition of the crop?—A. Well, yes, each kiln he makes reference to.

Q. That is a separate book?—A. Yes.

Q. And that is the grading book?—A. Yes, sir.

Q. And on that grading book he makes certain entries?—A. Yes.

Q. And on that grading book does he make any entry as to the price that is to be offered for that crop when he goes out to buy?—A. He might make an estimate basis—

Q. He will make an estimate based on the kiln, the condition that he has found the various kilns in?—A. Yes.

Q. And having examined the various grades he then makes an estimate of the price he will pay?—A. No, he does not make any estimate.

Q. Just look at that book. For instance, I am looking now at J. B. Wilson's, 1931 grade book in which he describes the whole crop, then at the bottom you will see in pencil "25 cents"?—A. Mr. Sommerville, I have prepared here a statement I think that covers a good deal of this.

Q. Perhaps if you will just follow that particular phase?—A. I do not know what that could be. You will see some pencilled figures up here in this corner.

Q. I am talking about the bottom of his entries on the page where he is dealing with the grades, then at the bottom of the page in pencil you will find the price, 25 cents; is not that his estimate of the price to be paid for that crop before he starts out to buy it?—A. You see, at that time, as I understand it—trying to get a clear view in your mind, Mr. Sommerville—as I understand it at this time there has been nothing mentioned or decided as to what basis a price should be offered when they are making these inspections.

Q. Yes?—A. And now for their own good, as I understand it, they sometimes have put a price at the top, or maybe at the bottom.

Q. At the top right-hand corner they have put a price on the basis of previous years' purchases; that is what their figure would be?—A. Yes.

Q. But that does not refer to the figure in the middle of the page, or at the bottom of the page; that is a separate figure?—A. Yes, it does, sir.

Q. Is not that the figure put by the buyer upon his book as to the price that he expects to pay for the crop which he has been inspecting at every kiln during the progress of the curing. If you will just stick to the page I was

looking at; I know that one, I have not looked at any of the others yet?—A. I am sorry, what was the name? I think this is the one you referred to; is that the one?

Q. Yes, that is the one?—A. There seem to be a lot of figures on a lot of the other pages.

Q. That is the one now?—A. Let us see what it is.

The CHAIRMAN: You see what we are getting at, we want to know the system that is followed, because the price paid in 1931 is the ground on which a rather acute difference has developed between ourselves and yourself. We want to know the system followed. This apparently indicates the system. If you will kindly give us just exactly what it means, it will be helpful.

Mr. KENNEDY *(Winnipeg)*: Mr. Sommerville, is that an isolated one, or just indicative of the practice.

Mr. SOMMERVILLE: Indicative of the practice, I just picked it out, the first one I opened.

The WITNESS: Mr. Buell informs me that in looking at this particular page that that in that instance is probably an estimate of the price of the crop; in that particular instance. Some of these figures are the number of kilns added up.

By Mr. Sommerville:

Q. Generally through the pages I find the same condition?—A. The next one has a little pencilled figure at the top, it does not seem to refer to anything.

Q. On that question, on that page that we were referring to, Birdsall's crop, where there is an estimated price of 25 cents; can you tell me what the buyer paid Birdsall for that crop?—A. I do not know whether we have got that or not.

Mr. FACTOR: What date was that, Mr. Sommerville?

Mr. SOMMERVILLE: The 1931 crop.

The WITNESS: It is amongst these contracts.

Mr. SOMMERVILLE: It might just as well be in Montreal, as far as I am concerned. I wonder if you have not some ready reference to the purchases from Birdsall of his crop.

The WITNESS: No ready reference here, we made a list of all contracts just of all contracts just in case you wanted to keep the contract as a record, of what they were; just to refer to them. The name is Charles Birdsall, is it, or Birdsall Brothers?

By Mr. Sommerville:

Q. I will tell you that the crop might be under two names, James Vaughan Boven and Birdsall Brothers; Birdsall Brothers may be the owners of the farm and James Vaughan Boven would appear to be the share man on the farm. My reason for asking?—A. As near as I can see, Mr. Sommerville, and find out here in this short time, I understand that it is not the custom at all to put down prices in these books of what they were going to offer. It may be that, it may be anything; I do not know that we could say what it is from what I can gather.

Q. Mr. Miller, looking at the crop list book I find that that crop is described as "good" and "20,000 pounds"; and that is the highest grade that is given to any crop in this crop list—"good"; there is no higher grade given to any farmer in this entire book?—A. Well, that is only a general remark on his whole crop; they can't tell what it is going to develop.

Q. I know; but at any rate while it is growing he grades it good?—A. All right.

Q. He grades some others "flue-cured medium," some others "fair"?—A. Yes.

Q. He grades some others "poor".—A. Yes.

Q. And he grades some others "medium small" and "light"; so this is at any rate the grade which is the top grade as far as this buyer is concerned when the crop is growing?—A. You say he has it marked "good" in that book?

Q. He has it marked "good" in that book; now I want to know what you were paying for that top grade?—A. We may not have bought it. I see here, Birdsall—James Birdsall, John Birdsall and some others.

Q. And the price paid to them was what?—A. John Birdsall, 25 cents.

Q. Birdsall Brothers?—A. Oh yes, here is Birdsall Brothers; 17 cents.

Q. 17 cents paid for a crop on which that buyer has estimated 25 cents?—A. I do not like to say that that is necessarily unfinished.

Q. Well, Mr. Miller, can you give this committee any other conceivable explanation for that entry at the bottom of that crop report after the crop has grown and is top grade, after it is cured in the kilns and has been examined weekly and then the buyer goes out to buy it and before he goes puts a price of 25 cents on the bottom of the page; is there any other explanation you could make?—A. I would like to try to make this explanation: that I did not personally have intimate contact with that, and I tried to find out.

Q. Mr. Miller, we appreciate that, but you have your cohorts here; is there any one of them who can give us the slightest explanation of why that man was paid 17 cents on the top grade of tobacco that was bought from him at that time when you consider the difference with the top price of 30 cents in the crop of 1930; because that is the crux of the thing. That is the complaint, Mr. Miller, from that whole area. Let me put it to you fairly: the complaint is that by reason of this strange new method introduced with Mr. Lee, when you had top grade crops and your alleged top price was 30 cents and one fellow got 17 cents, and another 15 cents, and another 27 cents, and another 22 cents; and it just happens—I did not pick that first book—that that seems to be borne out. Now, if there is any explanation, Mr. Miller, you are perfectly free to make it, or have your men make it now, or at any time?—A. I thought we had explained it; that first book that we looked at is just made when the crop is growing.

Q. Yes, and it is quite possible that that crop may grade at top grade when it is growing and yet in the curing it might be spoiled?—A. Quite.

Q. I can see that. The second book reports certain conditions?—A. Quite.

Q. And at the bottom of the page certain prices were apparently indicated; why the reduction of $33\frac{1}{3}$ per cent in the price paid?—A. I was going to say that even after these inspections were made there could be considerable change in a crop between the time that it was inspected and the time they came to buy it.

By Mr. Factor:

Q. After it is graded?—A. Yes, after we have seen it in the kiln.

By Mr. Sommerville:

Q. All right, Mr. Miller, let us take that basis; what you are saying is, the buyer goes out and he examines each kiln that is being cured separately?—A. Yes.

Q. And that kiln is completed and he makes his record of just what is the condition of that kiln when it is cured?—A. Yes.

Q. And it is all done within a few weeks, is it not?—A. Yes.

Q. And then the next kiln is put in and cured?—A. Yes.

Q. And the next kiln put in and cured, he knows that one, and the next kiln is cured; and do you say that between the time that these four kilns, say

the sixth, the tenth, the twentieth and so on as the case may be, are cured, that it may change in value to the extent of warranting a 33⅓ per cent reduction?—A. It might change considerably.

Q. I mean in quality; you say that?—A. Yes, if they do not handle it right it may be ruined—too much moisture.

Q. After curing?—A. Even after curing, yes, sir.

Q. My reason for asking you to consider that carefully, Mr. Miller, is that I see growers all around this room just with beaming faces laughing at the suggestion; I do not know whether it is right or wrong.

By Mr. Factor:

Q. What has to be done to that crop after it is cured? Would you let Mr. Buell—would you attempt to explain this, Mr. Buel—is that agreeable, sir?

Q. Yes.

The CHAIRMAN: You had better swear Mr. Buell.

HENRY P. BUELL, sworn.

Mr. SOMMERVILLE: Mr. Buell, what explanation have you got to make for the reduction from 25 cents to 17 cents on this particular crop that we are talking about of Birtsall Brothers.

Mr. BUELL: This particular crop of tobacco shows that there were 20 acres; fifteen of it was good and five poor.

Mr. SOMMERVILLE: Yes?

Mr. BUELL: Well, the price that is indicated down at the bottom does not mean that that is the buying price.

Mr. SOMMERVILLE: What is it on there for if it is not a buying price?

Mr. BUELL: In 1930 the price was higher than it was in 1931, but if we set a price he can relatively break that price of tobacco down to what he thinks it is worth at the time the buying takes place, that is, the buyer can.

Mr. SOMMERVILLE: But remember, Mr. Buell, in this case he has examined all the kiln, his examination is completed, his entries in his book are finished, and at the bottom of it—knowing what he is going to do with that crop—he puts in a price of 25 cents and he knows it when he fixes that price.

Mr. BUELL: Oh no, that was done before.

Mr. SOMMERVILLE: How do you know?

Mr. BUELL: Because it is the custom.

Mr. SOMMERVILLE: It is the custom what?

Mr. BUELL: To put a price down as a guide to the man.

The CHAIRMAN: Before you inspect the kiln?

Mr. MILLER: Afterwards.

The CHAIRMAN: That is what Mr. Sommerville says, but Mr. Buell says no.

Mr. SOMMERVILLE: What do you say is the practice now among your buyers?

Mr. BUELL: The buyer finds out what we have paid for the previous year's crop and he puts that down in his book as a guide for his buying.

Mr. SOMMERVILLE: Look at that book, he has not got those figures at the right hand corner of the page.

Mr. MILLER: It has got nothing on there.

Mr. SOMMERVILLE: Look at the rest of it, look at the top of the adjoining pages.

Mr. BUELL: I am not talking about the crop, I am talking about the quality of it.

Mr. SOMMERVILLE: I know what you are talking about, Mr. Buell, but what this committee would like to get is an explanation of that figure.

Mr. BUELL: That is a guide that they use when they are buying.

Mr. SOMMERVILLE: You think that is the explanation for paying this man 33 per cent less than the estimated figure of 25 cents?

Mr. BUELL: Well, that has got a lot to do with how the tobacco turned out as to quality.

Mr. SOMMERVILLE: Can you think of any other explanation?

Mr. KENNEDY (*Peace River*): What would the price of last year's crop have to do with it, would not the quality of the tobacco be the governing factor?

Mr. SOMMERVILLE: The 1931 crop was a better crop in quality, was it not? As a matter of fact, the 1930 crop was one of the poorest crops you had had, was it not?

Mr. BUELL: Yes, 1930 was not a very good crop; it was a small crop.

Mr. SOMMERVILLE: It was a small crop and it was poor quality, and for that poor quality crop you paid 40 cents a pound as a top?

Mr. BUELL: As a top, yes.

Mr. SOMMERVILLE: And you paid an average of 31 or 32?

Mr. BUELL: Yes.

The CHAIRMAN: An average.

Mr. SOMMERVILLE: An average, and the next year it was a better quality crop, and yet your prices ranged from 25 to 17. Is not that what you said the buyer has done?

Mr. BUELL: The buyer has put that price in there.

Mr. SOMMERVILLE: Yes?

Mr. BUELL: As a guide based on 1930 prices.

Mr. SOMMERVILLE: All right.

Mr. FACTOR: You have got 25 cents as an estimated price. Now, you never paid 25 cents for any tobacco, top price, in 1930.

Mr. BUELL: We paid more than 25 cents for the 1930 crop.

The CHAIRMAN: You paid as high as 40 cents.

Mr. BUELL: From 40 down.

Mr. FACTOR: So that this figure of 25 cents has no relation to the price you paid for the 1930 crop?

Mr. MILLER: Mr. Buell means this, the buyers do not know what the top price is going to be; but they knew that the top price for the previous crop was 40 cents; that is all he knows. Assuming that it is going to be the same top price this year, that is, for 1931 as it was for 1930, then his price would have been 25 cents. In other words, 40 cents top price of crop would have been worth 25 cents. That is known before he has made a final inspection.

Mr. SOMMERVILLE: Is there a single entry in this book from beginning to end showing 40 as the top price?

Mr. BUELL: No.

Mr. SOMMERVILLE: The 1931 crop was a better crop than the 1930 crop, was it not?

Mr. BUELL: Yes, it was a better crop.

Mr. SOMMERVILLE: So that, with that better crop, if that was the system that was being followed he would somewhere or other in this book have entered 25 cents, 35 cents, 30 cents or 40 cents for the various higher grades of crop, would he not?

Mr. BUELL: Yes.

Mr. SOMMERVILLE: Well, he has not done anything of the kind, because 25 and 26 seem to be the best.

Mr. MILLER: There are some thirties there, I think, or I may be wrong.

Mr. SOMMERVILLE: Here you are, 27.

Mr. MILLER: There are some 32.

Mr. SOMMERVILLE: Here you are, 23, 22, 20, and 18; here is one 19.

Mr. KENNEDY (*Peace River*): Not a 40?

Mr. SOMMERVILLE: Oh, no.

Mr. MILLER: The 40 is for fancy.

Mr. ILSLEY: A 32 entry would give some support to what these gentlemen have said; if 30 was the top price in 1931, on our theory—if I may put it that way—there should not be anything above 30, but on their theory they should have some up to 40.

Mr. MILLER: Yes, you are right.

Mr. EDWARDS: Would 40 cents be paid for the whole crop or a select part of the crop?

Mr. MILLER: Generally for select. The top price is really for fancy, for high coloured tobacco.

Mr. EDWARDS: That was the 1930 crop?

Mr. MILLER: I mean any top price in any crop.

Mr. EDWARDS: That 40 we are referring to that was top for 1930?

Mr. MILLER: Yes.

Mr. EDWARDS: Your average for 1931 was about?

Mr. MILLER: About 21.

Mr. SENN: But in very few cases would the top price be paid for the farmers whole crop.

Mr. MILLER: In very few cases.

Mr. SOMMERVILLE: We will have to examine these books at greater length and deal with that branch of the subject later. I just wanted to ascertain the meaning of the entries in the particular books.

Mr. YOUNG: Here is an entry in connection with one man's crop—good, medium, one; medium, one; medium, three; and then at the bottom he has written Good, Medium, and the price at the bottom is five; and the next page we have Good, Medium three; Medium five; Common $6\frac{1}{2}$; poor $3\frac{1}{2}$; and he has written "poor", and the price on this is 19 cents. If on the basis of last year's price one crop is worth only 5 cents I do not see how he gets 19 for that other.

Mr. MILLER: That does not seem right.

Mr. SENN: Would it be possible to follow this identical crop through to the curing stations and have them maintain their identity and know what the grades are there?

Mr. MILLER: Would it be possible?

Mr. SENN: Yes?

Mr. MILLER: And then separate it into our grades and know the result of each?

Mr. SENN: When you buy a farmer's crop at a certain grade in these books do you follow the farmer's crop down to the curing stations and give a grade there?

The CHAIRMAN: There is a record of what was paid.

Mr. SENN: Oh no, the grades.

Mr. EDWARDS: They have already bought the crop.

Mr. MILLER: We separate it into our own grades.

Mr. SENN: Can you identify it, in grades there, with the grade given by the buyer?

Mr. MILLER: No, sir; there are a good many more grades; we divide it up into a good many more grades.

Mr. SENN: Do you not keep any check on the buyers grades with what the actual grade is?

Mr. MILLER: You mean, we do not check up to find whether the buyer has bought well or poorly, is that your idea?

Mr. SENN: That is the idea, yes.

Mr. MILLER: I am not sure, Mr. Senn, that I quite understand. Would you mind putting your question again.

Mr. SENN: What I want to get at is this: The buyer gives a certain grade and buys on that grade; you take his word for what the grade is when it is bought and the contract is made. Now, do you not check up on his activities as to whether he is making good purchases, or whether those grades are finally as good as he says they are at the beginning?

Mr. MILLER: When that crop comes into the plant, somebody inspects it in a general way. That is all the buyer has made, is a general inspection, and they check it to be sure that it is roughly the same.

Mr. SENN: In other words, unless the buyer is making a good deal for you and getting a grade at least as good as he says it is at the price, you would not keep him very long?

Mr. MILLER: No, we would not. In other words, he has bought it on a general inspection, and when it comes into the plant the general inspection proves that it is roughly worth that, and if we are satisfied with it from that point of view, it is taken in and graded in to our own grades.

Mr. SENN: And I suppose if it is a good deal higher that is all the better for the company and the buyer gets credit for that?

Mr. MILLER: I suppose that might happen. For instance, a buyer says that tobacco is worth 18 cents, and the supervisor goes with him to see the crop. The supervisor says no; he thinks that crop is worth more and he says more. I have heard of many such instances.

Mr. SENN: On the other hand, I have heard of instances where a buyer would pay 15 cents for a crop which was a better crop than a crop that 21 cents was paid for.

Mr. MILLER: The same buyer?

Mr. SENN: Yes, I heard of that.

Mr. MILLER: I would hate to think that that happened.

Mr. SENN: You do not know whether it has or not?

Mr. MILLER: No sir, not to my knowledge.

Mr. SOMMERVILLE: Mr. Miller, the figures that are referred to that are above 30 and 32, and so on, refer to the acreage entirely.

Mr. MILLER: They do?

Mr. SOMMERVILLE: Yes, so we will just have to look into this book later.

Mr. MILLER: They are only really guides anyhow. There are no hard and fast rules on it.

Mr. SOMMERVILLE: But it is the guide that affects the grower, Mr. Miller, however rough it is, and that is just what we are trying to get at. When we adjourned on Friday, we were dealing with the question of the price of tobacco. Perhaps you will tell me, what was the total price paid for the entire crop of 1930; have you got those figures, Mr. Miller?

Mr. MILLER: The total price,—you mean the average price?

Mr. SOMMERVILLE: No, in dollars and cents, the total price of it.

Mr. MILLER: The total price in dollars and cents that we paid for the whole crop?

Mr. SOMMERVILLE: That was paid for the whole crop. I thought you would have those figures.

Mr. MILLER: We have the total quantity I believe.

Mr. SOMMERVILLE: Perhaps you can tell me the total price that you paid for all the tobacco you bought.

Mr. MILLER: For what crop?

Mr. SOMMERVILLE: For the crops of 1930, 1931, 1932 and 1933.

Mr. MILLER: That is on those statements which we have handed to you.

Mr. EDWARDS: Page five, what is that?

Mr. SOMMERVILLE: No, that is the total amount produced, but that is not the Imperial Tobacco Company purchases.

Mr. MILLER: That is the total production, and if it were figured out at the average price, you would get at the other, Mr. Sommerville, but we have not got that. It could be easily computed by multiplying. Page eleven shows the average prices for the crops and on page five there is the total crop.

Mr. FACTOR: Mr. Sommerville is talking about the Imperial Tobacco Company.

Mr. MILLER: These statements that were handed in give that information, I think. Here it is: Our total purchases for 1931 crop, Mr. Sommerville.

Mr. SOMMERVILLE: Yes, if you can start with 1930.

Mr. MILLER: All right. 1930 we purchased a total of flue-cured—which is Leamington and Delhi—8,878,626 pounds at an average price of ·3190 to us, or $2,832,607.62 to the farmer.

Mr. SOMMERVILLE: Yes, $2,832.607.62 to the farmer. Now, will you add to that flue-cured price, the total price you paid for other tobaccos; can you tell me that?

Mr. MILLER: What other tobaccos?

Mr. SOMMERVILLE: Well, you buy Burley and other leaf. Can you give me that.

Mr. MILLER: No, sir, we have not got it.

Mr. SOMMERVILLE: Does your flue-cured tobacco cover 80 per cent or 90 per cent of the domestic tobacco that you buy? What proportion would it cover?

Mr. MILLER: You mean in value?

Mr. SOMMERVILLE: In value, in dollars and cents.

Mr. BUELL: Oh no, not that much.

Mr. SOMMERVILLE: I mean Canadian.

Mr. BUELL: Of our Canadian purchases, how much does flue-cured represent of the total?

Mr. SOMMERVILLE: What proportion of the total would it cover?

Mr. MILLER: Of course, it would change from year to year, crop to crop, Mr. Sommerville.

Mr. SOMMERVILLE: Well, approximately.

Mr. MILLER: Well it might change quite considerable depending on a crop. We would make you up a statement on it.

Mr. SOMMERVILLE: Well, does it represent 75 per cent in dollars and cents, because your Burley is a very much cheaper tobacco?

Mr. BUELL: From two-thirds to three-fourths. That is an estimate.

Mr. SOMMERVILLE: In dollars. In other words, there would be a quarter to a third more in dollars value added to the flue-cured price which you have just given us, which would be a rough estimate of your entire tobacco bought by the Imperial.

Mr. BUELL: We have not got any figures on the Burley, but offhand it is something like that.

Mr. SOMMERVILLE: Then, at that rate, your total purchases of tobacco for the year 1930 represented a value of something between three and a half million and three and three-quarters, in dollars; for flue-cured, $2,800,000, and if you add a third to that you would have approximately three and a half millions, or thereabouts.

Mr. BUELL: On that basis, yes.

Mr. MILLER: Subject, of course, to verification. Will you let us give you a statement on that?

Mr. SOMMERVILLE: I would like to have it on the record exactly. I wanted to compare that with your profits for that year, Mr. Miller; that year in which you paid say three and a half million dollars for your total purchases your profits, according to the statement filed, were $6,512,000?

Mr. MILLER: Yes, but of course, other things would go into it, other tobacco.

Mr. SOMMERVILLE: I appreciate that there is imported tobacco goes into it, but imported tobacco plus domestic tobacco constitutes the raw material for your product?

Mr. MILLER: Yes.

Mr. ILSLEY: You are just taking the Canadian tobacco?

Mr. SOMMERVILLE: The Canadian tobacco, yes.

Mr. ILSLEY: That is three and a half millions.

Mr. SOMMERVILLE: Yes.

Mr. ILSLEY: I should think your comparison would not be of very much value unless you take the total raw material with the profits, that would be interesting.

Mr. KENNEDY *(Winnipeg)*: Is it not just the amount of Canadian tobacco being purchased by this company?

Mr. ILSLEY: I do not see the purpose of the comparison unless you take the total raw material.

Mr. BUELL: I can tell you the value, Mr. Sommerville.

Mr. SOMMERVILLE: All right.

Mr. BUELL: The total value of flue-cured tobacco was $2,832,607, and the total value of Burley tobacco was $1,443,406, making a total of $4,275,000, and, in addition to that, there was cigar leaf and other tobaccos.

Mr. MILLER: And besides that there were some further amounts paid for Canadian tobacco such as cigar leaf and Quebec leaf.

Mr. ILSLEY: And your profits were made on other tobaccos as well as Canadian tobaccos?

Mr. MILLER: Yes, other imported tobaccos, Havana tobacco.

Mr. ILSLEY: How much would that be?

Mr. MILLER: We have not got the figure.

Mr. SOMMERVILLE: Perhaps you would be good enough to prepare for us a statement showing what your total purchases were.

Mr. BUELL: And the amount of tobacco.

Mr. SOMMERVILLE: And did those purchases not include purchases for the Tuckett Company or some of your subsidiaries?

Mr. MILLER: Yes.

Mr. SOMMERVILLE: So that the profits of these subsidiaries would be a factor also for comparison?

Mr. MILLER: All dividends received would be included in those figures.

Mr. SOMMERVILLE: But dividends do not represent anything like the profits?

Mr. MILLER: Not necessarily.

Mr. EDWARDS: Did that include purchases for the British Company, Mr. Miller?

Mr. SOMMERVILLE: Not in 1930. You did in 1931 and 1932.

Mr. MILLER: We bought nothing for the British Company in 1930.

Mr. SOMMERVILLE: Then if you will prepare a statement of the amount which will show the entire amount of tobacco used by each of those dealers.

Mr. MILLER: Used?

Mr. SOMMERVILLE: Yes.

Mr. MILLER: Domestic, American, or domestic and imported?

Mr. SOMMERVILLE: All kinds of tobacco used in your various grades.

Mr. MILLER: Yes.

Mr. SOMMERVILLE: We would appreciate having that.

Mr. MILLER: All right, sir. What year?

Mr. SOMMERVILLE: For 1930, 1931, 1932, and 1933.

Mr. YOUNG: When you say the total amount, do I understand that the Canadian tobacco used this year was purchased two years ago?

Mr. MILLER: Yes, probably two years ago. We would not begin using it for about two years.

Mr. BUELL: It varies.

Mr. MILLER: It is eighteen months to two years before we begin to use it, and we will be using two or three crops at the same time. I understand Mr. Sommerville to say that he wants to know the value of the tobacco that we used.

Mr. SOMMERVILLE: Purchased and used.

Mr. YOUNG: The value of the tobacco you used and the price you paid for it.

Mr. SOMMERVILLE: And used, Mr. Miller.

Mr. MILLER: Used.

Mr. YOUNG: The quantity of tobacco you used and the price you paid for it, and the amount of tobacco you manufacture this year and the price you paid for it.

Mr. MILLER: There would be tobacco purchased say three years ago used at the same time.

Mr. SOMMERVILLE: Now then, Mr. Miller, the tobacco that you bought in 1931 at an average of 22 cents, or 21·9 cents, I think you said, you used that in the year 1931?

Mr. BUELL: We have not used it all yet.

The CHAIRMAN: So that the flue-cured tobacco bought in 1931 is still being used in your manufacture?

Mr. BUELL: Some of it, yes.

The CHAIRMAN: And that was tobacco that cost you on an average of 22 cents?

Mr. BUELL: In 1931, yes.

The CHAIRMAN: Yes, and in 1933 you were using the tobacco that was bought in 1930?

Mr. BUELL: Some of it. We are still using some of it.

Mr. SOMMERVILLE: In other words, the profits in 1933 were, to some extent at any rate, based upon tobacco that cost you a top of 40 cents and an average of 21 in 1930.

Mr. MILLER: Yes.

Mr. SOMMERVILLE: And in 1934 the profits also were based upon tobacco that cost you a top of 30 cents in 1931 and an average of 22.

Mr. MILLER: Some of it.

Mr. SOMMERVILLE: And then when you come to 1932 you had an average of 16 cents?

Mr. MILLER: Yes.

Mr. BUELL: ·1732.

Mr. SOMMERVILLE: The average for the whole crop was 16 something, and your entire purchases represented ·1732, approximately 5 cents less than the previous year's average. And the profits of 1934 then, will be affected by the cheaper tobacco that you bought in 1932.

Mr. MILLER: To some extent.

Mr. SOMMERVILLE: Yes, the cheaper tobacco will be reflected in the profits of 1934.

Mr. MILLER: To some extent, yes.

Mr. SOMMERVILLE: In 1931 you bought fourteen million pounds.

Mr. BUELL: 14,448,000.

Mr. SOMMERVILLE: Say fourteen and a half million, and on a saving of approximately 10 cents a pound, that represented an additional saving to you of about $1,450,000.

Mr. BUELL: We did not keep all of that tobacco.

Mr. SOMMERVILLE: Well, you sold some of it. You sold that year—1931—a million pounds.

Mr. MILLER: 800,000 pounds.

By Mr. Sommerville (to Mr. Miller):

Q. Then you got 13,500,000 pounds?—A. Yes.

Q. And on that, a saving of 10 cents represented a saving to you of $1,350,000; that is correct?—A. It would amount to that.

Q. And 10 cents a pound represented approximately $100 an acre to the farmer, on a 1,000-pound average crop?—A. Yes.

Q. So that the reduction of 10 cents a pound represented a reduction in the return to the producer of $100 an acre in 1931, over 1930, approximately?—A. Yes.

Q. In 1932 you bought 15,469,000 pounds?—A. Yes.

Q. About fifteen and a half million?—A. Yes.

Q. Your saving, then, was some 14 cents over the price of 1930?—A. We sold 3,500,000 pounds to the British Leaf Tobacco Company.

Q. 3,000,000 did you say?—A. 3,500,000.

Q. That left you 11,000,000 pounds?—A. 11,900,000.

Q. Approximately 12,000,000 pounds, we will say?—A. Yes.

Q. On that your saving was 14 cents over the price of 1930?—A. Yes.

Q. That represented a saving to you of about twelve times fourteen; that would be $1,680,000?—A. Yes.

Q. That 14 cents a pound represented a difference to the producer of $140 an acre, on a production of 1,000 pounds?—A. At 1,000 pounds per acre.

Q. That is a very substantial reduction to the producer of any crop?—A. Yes.

Q. As a matter of fact, a difference of one cent a pound represents $10 an acre to the producer, on a thousand pounds?—A. On a thousand pounds, assuming a 1,000-pound yield.

Q. I understand the average yield for some years, according to government reports, has been somewhere between 800 and 850 pounds?—A. That is right.

Q. That is the government average?—A. Yes.

Q. About 800 to 850 pounds?

Mr. Buell: 850 pounds.

Mr. Sommerville: We will say 850 pounds.

By Mr. Sommerville:

Q. One cent a pound would represent, on the average, $8.50 per acre?—A. Yes.

Q. On the average crop of the flue-cured tobacco?—A. Yes.

Q. Let me put it another way. We will put it in pounds. In the year 1931 how many million pounds more did you get than in the year 1930?—A. Did we buy, you mean?

Q. Yes—A. Flue-cured?

Q. Yes. I have got it here. In 1930 you bought 8,878,633 pounds of flue-cured tobacco?—A. Yes.

Q. And for that you paid $2,832,680.24?—A. Yes.

Q. In 1931 you bought 14,378,259 pounds?—A. 14,448,000 pounds.

Q. Yes; and for that you paid $3,155,276.35?—A. Yes, approximately.

Q. And in 1932 you bought 14,560,000 pounds?—A. 15,469,000 pounds.

Q. All right. I am just taking this from Mr. Sutherland's report. You say 15,000,000?—A. 15,469,000.

Q. And for that you paid $2,000,000?—A. $2,678,859.60.

Q. That is to say, in 1931 you got approximately five and a half million pounds more of flue-cured tobacco than in 1930, for an additional price of $322,000; that is right?—A. Approximately right, yes.

Mr. Factor: It is a matter of mathematics.

By Mr. Sommerville:

Q. You got 44 per cent more leaf, and paid 10 per cent more money than in 1930?—A. Approximately.

Q. In 1932 you got 6,000,000 pounds more leaf than in the year 1930?—A. Yes.

Q. And you paid $306,000 less for it, for your entire purchases?—A. About $160,000 less; a little difference.

Q. $160,000 less?—A. Yes.

Q. You got an additional 6,000,000 pounds?—A. Yes.

Q. And there was no change in the prices to the consumer of your cigarettes or your tobacco?—A. Yes, sir.

Q. In 1932?—A. Well, during the whole period there has been a gradual reduction in prices all the way through. In the statement here—

Q. But that was due largely to excise?—A. No, fundamentally, without regard to excise.

Q. We will come to that, Mr. Miller. In other words, in 1932 you got 45 per cent more flue-cured tobacco than you got in 1930, and you paid 10 per cent less than you paid for the entire crop of 1930; is that not correct?—A. I didn't quite catch that.

Q. You got 45 per cent more tobacco?—A. More tobacco in 1931?

Q. In 1932?—A. In 1932, yes.

Q. Than you got in 1930?—A. Yes.

Q. And yet you paid 10 per cent less?—A. No, not 10 per cent less.

The CHAIRMAN: $160,000 less.

Mr. MILLER: Only a difference of $160,000. It would be about 6 per cent, roughly.

By Mr. Sommerville:

Q. All right, 6 per cent less than for the entire crop of 1930?—A. Yes.

Q. And in 1932 you got a very much better quality crop, didn't you?—A. Than in 1930?

Q. Yes?—A. Yes.

Q. And you got a crop which, because it was harvested in a different way—by priming rather than by splitting the stalk—was a better crop for your purposes?—A. Yes.

Q. And it cost considerably more to the grower to produce?—A. Some more, I think; not a great deal. I have dealt with that.

By Mr. Edwards:

Q. I think your statement dealt with that, where the grower gets more money for it?—A. Yes.

By Mr. Sommerville:

Q. Gets more money? ? Well, he got less money, at any rate, in 1930?—A. Gave him a better yield.

By Mr. Edwards:

Q. The lower leaves are harvested now, which were not harvested before, or were a loss?—A. Yes.

By Mr. Sommerville:

Q. You think he gets a better yield?—A. Better insurance, less risk from frost.

By Mr. Edwards:

Q. The story is that the top leaves are the only ones exposed to the frost?—A. Yes.

Mr. FACTOR: Would it not be well to go into that? Mr. Miller says the prices were reduced to the consumer. What was the reduction between 1930 and 1932?

Mr. SOMMERVILLE: 14 cents a pound, on an average.

Mr. FACTOR: That is on tobacco. I am talking about cigarettes.

Mr. MILLER: Page 45 of our brief.

Mr. FACTOR: It was reduced in 1930 to 3.8; in 1932, to 3.5.

The CHAIRMAN: Yes, 3.5.

Mr. FACTOR: That is .3 cents.

Mr. MILLER: It is reduced, less sales tax.

By Mr. Factor:

Q. Never mind the sales tax. Take sales value, excluding the sales tax. In 1930, according to your own figures, it is 3.8?—A. Yes.

Q. In 1932, 3.5?—A. That is right. That is 30 cents a thousand—32 cents a thousand, approximately, for cigarettes.

By Mr. Ilsley:

Q. At the close of the last day you were asked a question, whether on Turrets and other brands there was any reduction. You said, "No." Mr. Sommerville said we would let it rest at that for the moment. What was the reduction then in cigarettes?—A. Well, various other brands, a good many other brands of cigarettes—well, half a dozen prominent brands of cigarettes.

Q. Some brands were reduced?—A. Yes.

Mr. SOMMERVILLE: We will come to the question of reduction in prices in a very short time.

Mr. ILSLEY: All right.

By Mr. Senn:

Q. May I ask a question there? It is rather aside from the point, but it is in regard to the method of harvesting by farmers. You asked the grower, Mr. Miller, to undertake that different method because you thought it would furnish a better quality of leaf for yourself?—A. Well—

Q. For your use?—A. Well, for the general use, for the whole. For our use, for the other manufacturers' use, and for export purposes.

Q. That is the question I wanted to ask. Does the export trade prefer tobacco harvested in this new way, to that harvested in the old way?—A. Mr. Buell says some manufacturers in England would really do so.

Q. I was informed that the export trade preferred tobacco marketed in the old way. Are you prepared to express an opinion on that—A. Not without consulting Mr. Buell. I never discussed that particular point.

Mr. SENN: I was told that quite definitely.

Mr. BOULANGER: What is priming?

Mr. SOMMERVILLE: Removing the leaves as they ripen, and curing them as they are removed. The old method was to split the stalk and cure the whole thing together, and that left some of it wasted, your top leaves.

Mr. MILLER: Might I answer Mr. Senn's question?

The CHAIRMAN: Yes.

Mr. MILLER: Mr. Buell says that he understands that Messrs. Gallaher, Limited, who buy some of this tobacco, prefer probably the stalk cured method, but that the Imperial of Great Britain definitely prefer the priming.

Mr. SENN: All right.

Mr. MILLER: That is to the best of our knowledge and belief.

The CHAIRMAN: Let us get along.

By Mr. Sommerville:

Q. I understand the export trade can and does use the stalk cured tobacco? —A. The export trade can and does?

Q. Yes?—A. I understand so.

Q. And that in a large proportion of purchases they do prefer it to the priming method?—A. I understand that the bulk of the tobacco grown, for instance in the United States, is primed; and most of the tobacco outside of these new empire types, comes from the United States. So I would think they would prefer, on the whole, the primed tobacco.

Q. Will you tell me what happened with the crop of 1932? We have been dealing with the crop of 1931. In 1932 the farmers had grown Orinoco and Yellow Mammoth, at your suggestion, had they not?—A. Well, yes.

Q. And they had harvested it by the priming method rather than the split stalk method?—A. Yes.

Q. That meant that their crop was harvested a couple of weeks earlier than by the split-stalk method?—A. Yes.

Q. That meant that the crop was ready for the market two weeks earlier than ordinarily by the split-stalk method of harvesting?—A. Yes.

Q. That would mean that your market would open—you being the largest purchaser—two weeks earlier than you had formerly opened the market on the split stalk tobacco?—A. Naturally that would seem to follow.

Q. And as you had opened the market by October 6, for the two previous years, that would indicate that the market might reasonably open some time in the month of September?—A. Yes.

Q. Will you tell us why it was that you delayed the opening of that market till October 26, when the farmers had their entire crop harvested, cured and awaiting the purchaser in the month of September? The 26th of October was the date fixed in 1932?—A. Well, I think we tried to cover that very clearly with Mr. Sutherland, in his inquiry into that matter.

Q. Apparently you didn't do it with success, because Mr. Sutherland finds that not only did you delay your own purchases, but that you had in your possession in the month of September an order for 1,000,000 pounds from the Imperial of Great Britain.

Mr. Buell: 850,000 pounds.

By Mr. Sommerville:

Q. Let me see what Mr. Sutherland says about that. At page 13, in that first paragraph, Mr. Sutherland states:—

> From evidence obtained it appears that the Imperial Tobacco Company of Canada were mainly responsible for a delay of nearly three weeks beyond the usual time in opening the market for the purchase of the flue-cured tobacco crop of 1932. This delay caused much uneasiness and had a very disturbing effect upon growers of tobacco. Correspondence between the Imperial Tobacco Company of Canada and the Imperial Tobacco Company of Great Britain and Ireland shows that on September 23, 1932, an order was placed with the former company by the latter for the purchase of 1,000,000 pounds of flue-cured tobacco from the 1932 crop with the probability of an order for another 1,000,000 pounds the following week.

Then he goes on to say:—

> The correspondence shows conclusively that the Imperial Tobacco Company had instructions, before the usual time for opening the market, to purchase a substantial quantity of tobacco for the Imperial Tobacco Company of Great Britain and Ireland, yet the opening of the market was delayed.

Why did you delay the opening of the market for one month in the fall of 1932?—A. Well, I think that has been covered in our brief.

By Mr. Factor:

Q. But can you not make some short explanation, Mr. Miller?—A. Well, in the first place, there was no deliberate delay with any intention of trying to cause any trouble or uneasiness or worry by the farmers. It so happens—Mr. Sutherland didn't mention it, and I don't know how much bearing one incident in it had—that Mr. Buell who was handling all our leaf matters at that time really was laid up in the hospital and was in very bad condition. We had been negotiating and talking with the British—I mean, with the Imperial Tobacco

Company about orders for tobacco, and as to how much we ought to buy. We were in quite a quandry. There was a big crop, even bigger—as I remember it—than the previous year, the largest crop they had ever had. There seemed to be no reason for hurrying into opening the market sooner. We didn't want to rush in, or anything of that sort.

Q. You never rushed?—A. Sir?

Q. You never had rushed in your history. You opened after due deliberation always?—A. Yes.

Q. On previous occasions?—A. Yes.

Q. And why didn't you open with the same due deliberation a month earlier on this occasion?—A. Well, just as I tried to explain to you: we were waiting for these orders finally, and waiting for Mr. Buell, and there was not any particular reason for hurrying about it, and we just did not do it.

By Mr. Kennedy (Winnipeg):

Q. In what hospital was Mr. Buell confined?—A. In the Royal Victoria.

Q. In Montreal?—A. Yes.

By Mr. Sommerville:

Q. For ten days, I understand.

Mr. Buell: Something of that sort.

The Witness: I do not put that as the whole, but it had a bearing on it. Mr. Buell is our principal officer and he was in the hospital. We could not discuss the matter.

By Mr. Sommerville:

Q. Before he went into the hospital you had already made up your minds as to the quantities required. You had already had orders from the Imperial. You had Mr. Lea right there at Montreal to carry out the buying instructions, and you knew what your needs were. Now, do you want to tell the committee that the only answer you can give for delaying the buying was the presence of Mr. Buell in the hospital for ten days?—A. No. That was one of the contributing factors.

Q. Now, that is different. I am sorry to refer to it, but his condition was not such that he could not be seen?—A. No.

Q. And, as a matter of fact, he was consulted regularly?—A. Yes.

Mr. Factor: As a matter of fact, you wrote a letter on September 28 to Mr. Reed, manager of the leaf department saying, "We have not set any special date for opening the market, but in all probability it will be within the next two weeks." So, on September 28, there were negotiations about the opening of the market?

The Witness: Well, negotiations—

By Mr. Sommerville:

Q. Do you say, Mr. Miller, that the effect of delaying the market—perhaps I will put it to you this way: do you agree with Mr. Sutherland in his finding that the delay in opening the market will have a direct bearing on the effect of the prices being paid?—A. What page is that?

Q. On page 14. I will deal with the latter part of the quotation. I will read the whole quotation. Mr. Sutherland adopts the quotation from the report of the Federal Trade Commission of the United States on the tobacco industry dated December 11, 1920, containing the following under section 7, page 58:—

> According to the testimony of numerous tobacco producers, dealers, warehouse men, and buyers, as well as the correspondence of the large manufacturers and dealers, one of the most important causes of the

> decline in the price of leaf tobacco during the 1919-20 season was "holding off" the market and buying "under cover" indulged in by the large tobacco manufacturers. The effect of these practices varied, but was most apparent in those markets where the companies using the methods were important purchasers. As a general proposition, it is recognized by those experienced in the trade, that "holding off" the market, even temporarily, by any concern which purchases a substantial percentage of the tobacco sold on that market, will have a direct effect on the prices being paid.

Now, that is a statement of the Federal Trade Commission of the United States investigating the buying methods in certain big companies with which you were associated—with which your company is associated in the United States?—A. Well, don't you think it is fair to read on?

Q. I will read that afterwards. Do you agree that that had a direct effect upon the prices being paid?—A. As explained there, yes, in the United States.

Q. Now, is it not a significant thing—at least, it appears so to the growers, and we would like to have your explanation of it—that the very first year in which you have a southern buyer, Mr. Lea, in charge of operations completely and exclusively, this holding off the market is indulged in?—A. Well, it had no bearing, so far as I know, or believe, on the whole situation.

Q. Who suggested waiting until the 26th of October?—A. I do not think that anybody made any direct suggestion to hold off or to delay until the 26th of October.

Q. Surely, Mr. Miller, when you knew your crop and when you knew your quality and when you knew your requirements?—A. We did not know all our requirements.

Q. You knew your own?—A. Well, yes.

Q. And you knew just as much as you had even known them in the history of your company?—A. I suppose so.

Q. So that when you knew your own requirements and on top of this you had an order for a million from Great Britain?—A. Yes.

Q. Does it not occur to you as a very strange thing that your company should not, in the month of September, have been very seriously considering the question of going out and getting your requirements?—A. Well, we were. I believe this letter refers—

Q. You were considering, but why did you hold off the market if you were considering—why did you hold off for a month?—A. I cannot answer it.

Q. Who fixed the date for opening?—A. So far as the exact date, I think it must have been finally with Mr. Buell to make the final date.

Q. Mr. Buell, why did you fix the date as October 26, instead of September 26?

Mr. Buell: Well, our requirements, plus our orders we had, and in view of the largest crop that had ever been grown, we were trying to persuade the Imperial Tobacco company of Great Britain and Ireland to give us more substantial orders before opening the market.

Mr. Sommerville: Yes. You had all your own requirements which were ten millions or more; you had already a million from Great Britain, and that constituted a larger order than you had ever been given for tobacco in your history, except in the year 1931. Now, why did you hold off? You knew that Gallahers were here ready to buy.

Mr. Buell: I did not know anything about Gallahers.

Mr. Sommerville: Mr. Buell, Gallahers were here in 1930 and Gallahers were here in 1931.

Mr. Buell: I said the quantity—

Mr. SOMMERVILLE: I do not care what you knew about the quantity. You knew they were here to buy, and you knew they did not go into the market and never had and nobody else had gone into the market until you got started. Why did you deliberately delay the opening of that market for thirty days if it was not for the purpose of putting into effect the depressed price which you were then going to pay for the 1932 crop?

Mr. BUELL: It was not to depress the prices.

Mr. SOMMERVILLE: The immediate effect was to depress the price, was it not, Mr. Buell?

The WITNESS: You mean the price was lower?

Mr. SOMMERVILLE: Very much so, Mr. Miller; and the immediate effect of it was to make that market soft when you did go onto it and subject to easy pressure, was it not? Was not that the effect, Mr. Buell?

Mr. BUELL: That is what developed.

Mr. SOMMERVILLE: And, as a matter of fact, you bought tobacco cheaper that year than you had ever done in your history?

Mr. BUELL: That is under the protection—

Mr. SOMMERVILLE: And it was the finest quality you ever bought.

Mr. BUELL: Yes.

Mr. SOMMERVILLE: And may I suggest to you that you had at your left hand Mr. Lea, the buyer who had been purchasing for your people in the United States, and that he advised you to stay off the market until October 26?

Mr. BUELL: Mr. Lea was not responsible for that.

Mr. SOMMERVILLE: Well, who was responsible?

Mr. BUELL: There is no fixed date for opening the market.

Mr. SOMMERVILLE: Now, Mr. Buell, are we going back to that?—Do you honestly want this committee to believe that the reason you stayed off that market was because there was no fixed date for the commencement of the market—do you? I know it is embarrassing, but we want to know from Mr. Buell what were the influences that actuated you or your buyer Lea in staying off the market if it was not his knowledge of the practice in the United States that had resulted in the depressing of the price to 7 cents the previous year.

The CHAIRMAN: Can you not give us any information?

Mr. BUELL: In the face of the very large crop and the fact that at that time we did not expect to buy as much as we ultimately bought we did not want to go into the market and leave so much of it in the hands of the farmers which would have to be sold for depressed prices.

Mr. SOMMERVILLE: You were not thinking about the prices the farmers would sell his crop at; that is not the motive, is it? If so, why did you not raise the price to 30 cents and then he would not have had any depression?

Mr. BUELL: If we raised the price to 30 cents and we had taken up our requirements that would have made the situation worse because those that did not sell could not have sold their tobacco.

Mr. SOMMERVILLE: They did sell, didn't they? The whole crop was taken, was it not?

Mr. BUELL: Ultimately.

Mr. SOMMERVILLE: And it was taken at a price, and the price was set by you at the beginning, was it not?

Mr. BUELL: Yes.

Mr. SOMMERVILLE: And if the price had been 24 cents instead of 20 cents the crop would have been taken just the same?

The CHAIRMAN: There is no question about that, Mr. Buell, is there? Everything we have heard makes that so abundantly clear. I do not see why you should hesitate to answer that. You opened the market; it is admitted by all; and the price you set is the price really that others followed. Others will give evidence to that effect.

Mr. BUELL: The prices we paid for our purchases were higher than any other buyer paid.

Mr. SOMMERVILLE: Oh, yes, because you got the first chance; you got the higher quality.

Mr. BUELL: This is by the firm—

Mr. SOMMERVILLE: It does not amount to a cent a pound on the average more than was paid for the whole crop.

Mr. BUELL: In 1932?

Mr. SOMMERVILLE: In 1932. Your average was 17 and the whole crop sold at 16 cents. Now, is that a fair position to put the producer in after he has raised and finished his crop, has cured it according to your own suggestion, and has spent a lot more money to cure it that way—is that a fair position to put him in, and then go out and reduce the price still another 20 per cent?

Mr. BUELL: We had recommended in a circular letter that the crop be reduced, and instead of reducing it they increased it.

Mr. SOMMERVILLE: Yes, but Mr. Buell, your circular letter said one thing and your buyers went out and did another thing, and who could believe a circular letter when you did just the opposite? Let me give you an illustration: you sent a letter to ask the producers to reduce the crop in 1931, did you not? In 1931 when your producers came into the field with new crops, instead of sticking by your old farmers and instead of encouraging the reduction in the crop you went out and bought from the new farmers and left the old farmers high and dry; now, didn't you?

Mr. BUELL: The old farmers high and dry?

Mr. SOMMERVILLE: Yes. Lots of them. In other words, you bought the crop of the new men who came into the field.

Mr. BUELL: In 1932?

Mr. SOMMERVILLE: In 1931 and in 1932 also. Is not that a fact?

Mr. BUELL: We buy tobacco from—

Mr. SOMMERVILLE: From anybody that grows it.

Mr. BUELL: —the farmer that has got the best tobacco for our use.

Mr. SOMMERVILLE: Certainly. That is the point I make. And if your circular letter meant anything to those farmers it meant: if you will reduce your crop you will be better off for reducing your acreage; and then you go and buy from a man who does not observe that but comes along and starts to grow crops. Now, in that situation, what is the farmer to believe? There was your circular letter and there was your buyer; don't you see how the one was offsetting the other?

The CHAIRMAN: Of course, that does not explain the delay.

Mr. SOMMERVILLE: No, it does not.

The Committee adjourned, to meet at 4 o'clock.

AFTERNOON SESSION

The Committee resumed at 4 o'clock.

By Mr. Sommerville:

Q. Mr. Miller, at any rate, with reference to the staying off the market until the 26th October, and with reference to the reduction in price both in 1931 and 1932, there appears to be no reasonable explanation for either?—A. Well, there are one or two remarks I would like to make with respect to some of them Mr. Sommerville.

Q. You want to supplement what was said with reference to it this morning?—A. Or emphasize it, yes.

Q. If you will; because we are anxious to find if there was any reasonable excuse for either of those moves?—A. Well, I might explain that when we saw that the quantity of tobacco being grown by the farmers was increasing beyond the domestic requirements, we did try and had been trying to influence and interest the Imperial Tobacco Company of Great Britain in using some or a lot of this tobacco. They had shown an interest in this tobacco, and in our opinion we thought that they could be interested to a considerable extent; and we were faced with a big crop—I think it was the biggest crop we have ever had, 29,000,000 pounds.

The CHAIRMAN: What year?

The WITNESS: 1932, and one of the chief factors in determining when we should start buying, or what price we should pay for it, is the quantity that we see that we can buy, particularly in relation to the total crop that is going to be available, at the time, any time around the first of October. And, there was no set date for any opening of the market such as referred to. We had orders in hand from the Imperial Tobacco Company of Great Britain and Ireland. We had one dated September 22, for 851,000 pounds; another one dated September 27, for 500,000 pounds, and a further one for old tobacco for 500,000 pounds, which we were to supply out of our old tobacco, because they wanted to use it right away, and which we could replace out of that crop. We had hopes that we would get considerably further orders from them, and that, together with what I have mentioned about Mr. Buell, the principal officer concerned being ill in the hospital around that time, was the reason why we did not start buying sooner that we did. And we did receive later further orders from the British company, the Imperial Tobacco Company, one dated November 7 for 500,000 pounds, November 15, 1,000,000 pounds, and another one for 1,000,000 pounds of old tobacco, which we let them have out of our own tobacco, so as to further the export business of Canadian tobacco; and we think that had a good deal to do with our delay, or as it was referred to, as delay.

Q. Now, let us take these two reasons. First, the orders that you received in November had nothing to do with the delay?—A. No, we were looking forward to other orders, and we did get them, which proved we had interested them and there was some justification for it.

Q. And you had, by the 27th of September orders for 1,370,000 odd pounds?—A. 1,851,000.

Q. Is that all new tobacco?—A. It is the same thing. We, presumably, were going to replace it, otherwise we would not let them have it.

Q. You had orders, then, by the 27th of September for 1,851,000 pounds?—A. Yes.

Q. These were the largest orders you had ever had from the Imperial of Great Britain and Ireland up to that date?—A. Yes, I think so.

Q. That was received ten days before the ordinary date for the opening of the market, the 6th October?—A. Well, the market—

Q. Let me put it this way: Ten days before the date upon which you had opened the market for the two previous years?—A. There has never been any fixed day, sir. Here is the first date of the 1926 purchase. We opened on October 19.

Q. Come down to a period nearer those with which we are dealing?—A. 1927, October 12; 1928, October 18; 1929; October, 10; 1930, October 6; 1931, October 6.

Q. Yes?—A. 1932, October 26.

Q. So that at any rate for the previous two years having opened the market on October 6, you had in the year 1933 in your possession, the largest orders you had ever received from the Imperial Tobacco Company of Great Britain and Ireland and you had your own requirements to meet?—A. Yes.

Q. In other words, you had the largest requirements or the largest purchasing program in your possession on September 27, 1932, before you opened the market— —A. We also had facing us the largest stock or crop that had ever been produced?

Q. You had facing you the largest crop?—A. Yes.

Mr. Kennedy *(Winnipeg)*: And other substantial orders in prospect?

The Witness: Yes.

By Mr. Sommerville:

Q. You had in addition substantial orders in prospect?—A. Which materialized.

Q. Do you say to this committee that having to meet that requirement on the 27th of September, you deliberately delayed the opening market until the 26th of October because of some possible prospective orders of another million or two from Great Britain?—A. I do not say that was the only factor.

Q. And is it not a fact that having this requirement and withholding your purchasing from the market from the 27th of September to the 26th of October, it had a very serious effect upon the market itself?—A. You were speaking of there being a sort of panic condition prevailing before we started buying. I have no recollection of any such condition having prevailed.

Q. You have no recollection of that?—A. No, sir.

Q. That seems very strange, because that is the thing that is accentuated throughout the whole district?—A. I have inquired, and checking my own memory and from everything we know of, we have no recollection of any such panicky condition. We do not mean to say that there were not dealers and farmers, maybe, inquiring, when are you going to start buying, or something of that sort; but no panicky condition or anything of that sort, nothing approaching it. We have no recollection of any such condition as that, Mr. Sommerville.

Q. Have you any other explanation than that which you have now given us for either the reduction in price or the delay in opening the market, because we want to give you ample opportunity to make any possible explanation; or have you covered it all?—A. Well, it is hard to remember the whole subject, but I wanted to add to what has been said, this further information.

Q. I do not want you to think I have not given you every opportunity to explain everything?—A. That is very kind of you, that is why I appreciate it. I do not know whether you have read the report to the registrar, or not, but—

The Chairman: We are more concerned with your answer now; never mind the report.

The Witness: Yes; I think broadly speaking, that is all.

By Mr. Sommerville:

Q. When you did open the program, you fixed the price at an average of 17 cents?—A. May I make one or two other explanations?

Q. Yes, if they have any bearing upon the subject?—A. The holding off of the market which is referred to—more or less the same subject sir—I just thought it might be—you referred to the report of Mr. Sutherland, about the fact of holding off the market in the United States, and you referred to page 14, of the report sir.

Q. Yes; there was a paragraph I was going to read?—A. I think it should be read.

Q. At this time?—A. I would appreciate it, sir.

Q. Page 14, of Mr. Donald Sutherland's report.

> The term "holding-off" the market is not applicable in Canada in precisely the same sense as used in the United States. Strictly speaking, there is no market in Canada. The company making the first purchase, however, has come to be considered as opening the market, and the period of buying that follows is regarded as the market. When a grower has harvested his crop he awaits the arrival of a purchaser, and when a buyer appears there ensues the process of dickering as to price, with varying results, often influenced as was the case in 1932, by financial circumstances and the eagerness of the grower in making a sale. When asked for an explanation as to the delay until October 26th in opening the market, the Imperial Tobacco Company of Canada submitted the following, under date of February 2nd, 1933.

That is the paragraph?—A. Yes.

Q. That is to say, the holding off the market here is not the same as in the United States?—A. No, sir.

Q. In the United States, where there is a reference to holding off the market, the market is an auction market?—A. An auction market.

Q. And the leaf is graded and sold under grades in the auction rooms?—A. To the highest bidder.

Q. To the highest bidder?—A. Each pile.

Q. And the holding off the market there means that the bidders do not come in?—A. Do not come in.

Q. And bid?—A. Yes.

Q. And the result is a poor market?—A. Quite.

Q. Well now, if the bidder does not come into the farm for 30 days after the crop is ready, has not that the same effect of softening the market or making it more pliable when the pressure is put on?—A. I was not meaning—I only wish to add that observation of Mr. Sutherland's, to what had been previously read by Mr. Sommerville.

Q. I appreciate the way the marketing is done.—A. I did not know whether the other members of the committee appreciated it or not.

The Chairman: Yes, we had it all explained, Mr. Miller.

By Mr. Sommerville:

Q. The result is the same, is it not, Mr. Miller?—A. I do not think so sir. It has been stated that we make the top price, make the prices or the high prices.

Q. Yes.—A. Well, it seems to me—I am just making an observation to this question, sir—if we had wanted to force down the price, I would assume there was not much reason for our waiting. We could have forced it down on the 6th of October as well as we could on the 26th October, on that kind of basis.

Q. You think you would have?—A. I do not see it has any special bearing.

Q. You think the men would not have had more resistance on the first of October than you found on the 26th October?—A. No, sir.

Q. You do not think so?—A. No, sir.

Q. Apparently opinion throughout the district was that it had a very serious effect, and Mr. Sutherland in his report finds that it had a big effect upon the market?—A. Yes—that is a matter of opinion.

Q. Yes. When you did open the market, do you know the method adopted in buying that year as against the method adopted in previous years?—A. No, —well, before, if you do not mind, we had a lot of questions about this 1931 crop on this Birdsall affair that was mentioned. Could I make some observation upon that?

Q. Yes.—A. I have a copy of what is called, I think, the "Crop Book" that you mentioned before, the Birdsall Brothers, you remember them?

Q. Yes.—A. It had 25 cents, or 25 marked at the bottom.

Q. Yes.—A. Well, we have been trying to understand just what that did mean, or what significance there was with regard to that 25 cents, if any; and as near as I can find out, we do not know what it means. In most every other instance in that book, the pencil figure down there refers to the number of kilns.

Q. No, Mr. Miller. Wherever the pencil number refers to the number of kilns, it is opposite the number of kilns, and in Birdsall's case—A. Is it?

Q. Just look at it. In Birdsall's case it does not mean the 25 kilns. Look at it again?—A. I am trying to find an explanation, sir, but you will see at the top one possible exception—you will find it is marked 15 acres good, 5 acres medium light. Now, as I understand it, Birdsall Brothers and John Birdsall, who was one of the brothers, owned this farm together. There were two crops of tobacco raised on it. One was approximately estimated at 20,000 pounds which belonged to Birdsall Brothers. There was another small crop on the same farm, which belonged to John Birdsall himself, amounting to 3,500 pounds of tobacco, which is not referred to in the crop book. That is a matter I will explain later. I have a gentleman here who is familiar with that territory, and he will explain that to you. Now, that is a total of 23,500 pounds, which is roughly, 25 kilns. That may be the explanation. I am not trying to say it is, but it may be. We don't know what the explanation is. Well, of course each man has those crop books, or had at that time anyway, and they used them pretty well and wrote on the book what he thought would give him the best information about crop conditions. And they did it sometimes in all kinds of ways, made all kinds of memoranda in them. Now, it so happens that here we have the contracts which show that on October 17th there was purchased from Birdsall Brothers—mind you, it is all one farm, one of the Birdsall Brothers had raised a crop,—a crop, and on the same line we find another one by John Birdsall, 20,000 pounds, which is bought at 17 cents from Birdsall Brothers, signed for by John W. Birdsall himself, and on the same day 3,500 pounds bought from John W. Birdsall, at 25 cents, bought from the same man at a different price. Why? It is perfectly evident a difference in the values of the crop, the whole crop was not the same value.

Q. Is it not equally evident that that was the price that was offered by Imperial?—A. No. I tell you what it might have been; it might have been the price that we were going to offer John Birdsall for this little lot of 500 pounds.

Q. Over it are the words "all" and "covering"?—A. All right, we bought all of it, sir.

Q. But not at 25 cents?—A. I think that refers that we bought all, or were going to buy all—

Q. I think that is true?—A. You will find some places where we sold Canadian leaf to this person or that person.

Q. I think you are right. What you meant was that you were going to buy all the flue-cured at 25 cents; but when the buyer went to buy he bought the bulk of it at 17 cents, and some of it at 25?—A. He bought it from the same man although they were different interests. So I mean there is no reason

to think that there was any cut-down, except the quality; the man here was a man selling two crops out of the same barn.

Q. Yes?—A. I understand that that all has been inspected but not by—

Q. At any rate, you did buy that particular crop on that occasion?—A. Yes, sir.

Q. Now, Mr. Miller, when you were talking about having various grades from the same man, is it not common practice that when you go in you will offer say 20 cents for so many thousand pounds, and 5 cents for so many thousand pounds?—A. Sometimes I think that happens.

Q. Is it not a fact that that is the point of the contract which is referred to in Mr. Sutherland's report; and is it not a fact that these figures are just put in there so as to scale down the price paid for the crop; that is, the lower figure—5 cents?—A. No, I think it is a matter—without—this is just my idea, my explanation, sir; that you are going to a man and say you want to buy his crop; you say you are willing to give him, we will say you may be willing to give him 25 cents for his crop—I am just using this as a hypothetical case, you see—some of this tobacco is not as good as the rest of it; eventually you come to an understanding where we will buy some of it at 25 cents, some at 18 cents, and it will work out on an average to somewhere around—a matter of negotiation.

Q. But if you offered 20 cents for some and 5 cents for the balance, is it not a fact that you are not allowing the farmer to give you 5 cent tobacco without insisting on him giving you all of it?—A. I have not heard of that, sir. That is the tail-end of the crop.

Q. No, no; that is not the tail-end of the crop at all?—A. I mean, on the tail-end of his buying; that is more or less the nondescript part of the crop.

Q. Is that what you think it is?—A. I think so, yes.

Q. Mr. Miller, let me tell you this: if there is a condition of that kind in the contract and it applies we will say to 5,000 pounds at 5 cents a pound and 20,000 pounds at 20 cents a pound, the first 5,000 pounds delivered to your warehouse is paid for at the rate of 5 cents a pound, and it may be the best part of the whole crop; so I am told.

Mr. Lea says that is right. So then, it is not the nondescript part of the crop. It may be the very finest portion of his leaf; but you insist on getting at least the first 5,000 pounds of that crop at 5 cents?—A. Wait a minute. Excuse me a minute, sir. I have just got an explanation that I understand to that, Mr. Sommerville; that is true. I did not realize it myself, but as a matter of practice; and when the poorer tobacco does come in, he is paid 20 cents for that poorer tobacco for the amount of the 5 cent. It amounts to the same thing, and they tell me there is no objection on the part of the farmer.

By Mr. Ilsley:

Q. It indicates great anxiety on your part to get that cheap tobacco?—A. Would it work that way?

Q. What other reason would there be for it?—A. I was just trying to find out. Except the matter of keeping the books straight, clearing out these; because as I understand it what comes in later, say it was for 25,000 pounds at 20 cents and 5,000 pounds at 5 cents; suppose it was 27,000 pounds, he gets 22,000 pounds at the higher price. Of course, as to anxiety for cheaper tobacco, we have got to have cheaper tobacco as well as anybody else.

Q. That is the point Mr. Sommerville was making; your anxiety to get that 5 cent tobacco.

Mr. Sommerville: Why wouldn't you like to get the 5 cent tobacco? This is getting to be like the differential on hogs.

Mr. Ilsley: That is the reason for it.

The WITNESS: Pardon me, sir, I am awfully sorry to be taking up the time of the committee this way; you were asking about—

By Mr. Sommerville·

Q. Why would you not like to get 5 cent tobacco if it is of that quality?—A. I do not think we would particularly object to his getting more than 5 cents; we could buy probably some of the lower grades of tobacco without having bought these high grades all.

Q. I am told, Mr. Miller, that is the explanation; I am told that the rule is that you buy tobacco, and a man says, "Now that tobacco is just as good as the tobacco of my neighbour across the road, and you know it," and so to satisfy perhaps his pride in his tobacco, you will say, well, we will give you the same price as the man across the road for a certain amount of it, but the balance of it we will reduce to a price so low as to bring it down to our average?—A. I have not heard of it.

Q. Well, there are a lot of things you are coming to learn about now apparently?—A. I have been eight years trying to find out some of these things that I never heard of.

Q. But you knew about the panicky conditions that existed up there?—A. Yes, sir.

Q. We have a sworn statement here:

> Probably what led up to this, we knew in 1932 some crops were sold as low as 14 and 15 cents. Those were just as good as a few crops that were sold at 24 cents—a wide fluctuation in the market. This was one means of trying to correct the fluctuations in the market. We had panicky conditions in 1932. I have explained how propaganda was spread until the growers were in a state of panic, and how the market broke, and we appealed to Colonel Kennedy. We went to Colonel Kennedy and said, "Something has to be done; prices are dropping simply out of sight."

A. But this is after the opening.

Q. Ah, this is after it has opened. You had a panicky condition, then you opened under that condition and immediately prices dropped, and the farmers then got into such a condition that they went to Colonel Kennedy, the Minister of Agriculture, and he in the second week of your operations, made an announcement that the government would stand behind the growers to the extent of guaranteeing the processing of the tobacco; and then he goes on to say:

> Once the announcement was made that a system had been evolved whereby the growers could have their crop graded and processed, so that they didn't need to sell, the market started to stiffen.

Is that true?—A. I do not know, sir.

Q. Can any of your cohorts give us any answer as to whether or not that is a true statement?—A. As to whether the prices went up after Mr. Kennedy—

Q. Yes?—A. We haven't any information on it.

Q. You haven't any information on that at all, I see. By the way, you had this morning a list of the persons from whom you bought the 1931 crop, that would be helpful to us in our examination of these books—the 1931 crop, and the 1932 crop—the list of the names of the persons from whom these were bought, and the amounts paid for them?—A. We will furnish you with that.

By Mr. Kennedy (Peace River):

Q. The other day we were told that instructions were sent to the buyers that they were buying just a little too high on the average. They were instructed to buy more lower priced tobacco. It seems to me that the buyer has this book as a guide, and gets instructions of that kind the figures in there

must specifically refer to price, or there must be something else, there must be a specific reference to price.

By Mr. Sommerville:

Q. Might I suggest that we are going to go into the books to-night when we have a little more spare time. We may be a little more familiar with some of the features of it for further examination of it to-morrow. By the way, you had that statement this morning; it will help us in our study of these books to-night.—A. Very well, we will let you have it.

Q. If you will just leave it with us before we go?—A. Yes.

By Mr. Kennedy (Winnipeg):

Q. Mr. Miller, in this Sutherland report, at the bottom of page 14, and continuing on page 15 to the bottom, your company's report was there quoted as giving an explanation for the so-called hold-off or delay, your opening being for the 1932 crop (at the bottom of page 15): "Substantially, the factors recited above were mainly responsible for delaying our purchasing until the 26th October."—A. Yes, sir.

Q. Now, there is no mention made there whatever of the illness of your officer, Mr. Buell, as being a contributory factor?—A. I realize that.

Q. Well, you stress that to-day, but it does not appear in the Sutherland report?—A. No, sir, we did not like to bring in the personal side of the thing along these lines. We thought that it was not necessary; we thought it was justified without it.

Q. Did you not consider it a substantial factor in the delay in opening?—A. Frankly, we were—as we say there, there was no special time for opening the market; and we were quite well aware that there was no serious delay in opening the market, Mr. Kennedy.

Q. But they are pressing you there in that examination for explanations, because prior to that at the top of page 15, your report quotes the actual dates of the opening for a number of years, and they are apparently pressing for an explanation as to the so-called delay in the opening that year, October 26, 1932. The reasons are stated at the end, you say: "Substantially, the factors cited above were mainly responsible for delaying our purchasing until the 26th October" yet no mention at all is made of Mr. Buell's illness?—A. I fully realize that.

Q. Would it not have been fairly important at that time to have considered Mr. Buell's illness a substantial factor?—A. I do not think so. We seriously considered whether we should say anything of that matter at that time.

Q. There is no reflection on the man for being ill?—A. This is no question of reflection, it was just—in fact, it seems to me kind of unusual that the sickness of one individual in a corporation of our size would really have any particular bearing; and probably you might say it should not have any; I mean, a corporation has got to go on irrespective of some individual.

Q. May I suggest this, that this thought suggests itself to me; that now you stress Mr. Buell's illness as a substantial factor in the delay in opening, then you made no mention of it?—A. Yes.

Q. Well, this feature occurs to me, and I think it is a reasonable one, that this man Buell's illness was really an afterthought?—A. No, sir, I assure you of that; I think probably that we could have the proper thing to substantiate that.

Q. I am quite prepared to accept your word?—A. That is certainly true, but we did hesitate to bring it into this.

Q. I quite understand?—A. Only that as I explained there was a little hesitancy perhaps to say that because some individual was sick that a portion of the business did not continue on as it would otherwise; and as a matter of fact there was not any substantial delay in opening the market. I think I have

explained that we did not lay as much stress on it at that time, and thought it was not necessary to bring it out; but as it has not seemed to be satisfactory, I have now felt that I—

By Mr. Sommerville:

Q. That is should at least be mentioned?—A. Yes, because it was a substantial factor, strange as it may seem.

Q. Now, Mr. Miller, let us just consider that for a moment: Mr. Buell was in hospital ten days in Montreal?—A. Approximately that.

Q. And you were in daily touch with him?—A. We could be.

Q. His illness was not of that serious character that he could not discuss business. I happen to know the nature of it. As a matter of fact, you were in daily touch with him?—A. Of course, by telephone or otherwise.

Q. And you have there in the office Mr. Lea, who was his chief lieutenant in the purchase of tobacco in the field?—A. Yes, sir.

Q. And you had your own executive that knew what your requirements for manufacturing were?—A. Yes.

Q. And that had nothing to do with Mr. Buell?—A. No, not directly.

Q. So that I suggest to you that after all Mr. Buell's indisposition for ten days was not a serious factor in delaying that market for thirty days?—A. I meant to say it is only one, Mr. Sommerville.

By the Chairman:

Q. Mr. Miller, do you think it has really any bearing on it at all? Honestly, it looks to me pretty much like a joke, with all due regard to Mr. Buell, for whom I am sorry; as I look at these sworn statements, and we have many of them here, that the growers were in a panic, that they were so panicky that they not only appealed to the Provincial government, as Mr. Sommerville has read it—?—A. Is not that appeal afterwards.

Q. No, it was in the midst of the panic?—A. I mean, after it was opened; that appeal was after it opened.

Mr. SOMMERVILLE: Two days after it opened.

The WITNESS: After it was opened.

The CHAIRMAN: Furthermore, they wrote to the Prime Minister of Canada, according to the report of Mr. Sutherland, and as a result of their writing to the Prime Minister of Canada, Mr. Sutherland's investigation under the Act was ordered. But the point now, Mr. Miller, is that these growers because of the delay in the market were apprehensive—leaving panic out of it for the moment—they were filled with apprehension as to what was going to become of them in that year; and really for you to say that your company was unaware of that, and the explanation offered is Mr. Buell was sick, it looks to me most weak.

Mr. FACTOR: It seems almost to be insulting the intelligence of the committee.

The CHAIRMAN: It is a weak excuse, with all due regard to Mr. Buell; and then in the field you had Mr. Lea, a very competent man apparently.

The WITNESS: I did not mean to lay undue stress on that.

The CHAIRMAN: There are two things worrying us: now, there is this drastic drop in the price and we have no explanation of that; in 1932 the market is delayed, and the growers tell us one after the other that they were very much alarmed and they had to appeal to the Ontario government, and there is another drastic drop in prices. And during the period, this is what I cannot get away from, and during these periods—that is, 1930, 1931, 1932 and 1933—the Imperial Company which controls the whole situation earn handsome profits, I am merely citing that as abundant evidence that while the company was prosperous these poor growers were forced to become panicky and were

being driven to despair. And furthermore, we have evidence here indicating that business men, particularly the fertilizer men, have $250,000 out in accounts that they cannot collect; the evidence shows that many farmers left the land during this period of depression and during this period of depressed prices, and at the same time left their accounts and the fertilizer companies are not able to collect; the evidence shows that younger growers will not, in any case, sign the notes, therefore, they are left as it were holding the bag. In the face of these facts, what puzzles me is what was the policy that directed the Imperial Tobacco Company in two specific actions, namely, the cut in price in 1931, and the delay in the market in 1932, and there has not been an answer given that, in my estimation, would appeal to any business man's common sense; frankly, it does not appeal.

Mr. FACTOR: Mr. Chairman, may I draw your attention to page 41 of the Sutherland report, in the middle paragraph, where Mr. Sutherland says:

> In an interview which I had with Mr. H. P. Buell on February 27th he stated that his company's holding off the market in October last was due to the arrangements they were making to find out how much the Imperial Tobacco Company of Great Britain and Ireland intended to purchase from the 1932 crop.

Now, there is no mention there by Mr. Buell of any delay occasioned by reason of his illness.

Mr. MILLER: No. I would think that is covered by the same explanation I gave to Mr. Sommerville.

By Mr. Factor:

Q. And also Mr. Buell knew at that time that he had received an order for a million pounds from the Imperial Tobacco Company of Great Britain and Ireland?—A. Yes, sir.

Q. Your third explanation is, that you feared that once your requirements were satisfied the remaining balance would be dumped on the market with the natural result it would create distress among the growers. Personally speaking, Mr. Miller, it does not explain anything.

By Mr. Sommerville:

Q. Mr. Miller, as an indication of the panic—you may not have been aware of it at the time but doubtless you are aware of it now—due to the condition of the 1932 market, that even the Board of Trade of Tillsonburg within forty-eight hours of the opening of your market went to the extraordinary extent of telegraphing the Prime Minister of this Province in these words:

> Hon. R. B. BENNETT,
> Prime Minister,
> Ottawa, Ont.
>
> South Oxford and Oxford are now appealing to you for aid and protection in order to save the tobacco industry from ruin and to save scores of tobacco growers from going into liquidation.

A. That is quoted?

Q. That is quoted on page 5:

> The market has opened at 24 cents high with but a few getting it. We appeal to you to look into this matter and to save the situation by taking over the present crop or by placing a prohibitive duty on foreign tobaccos coming into this country or take some such immediate measure that will save the situation. We are firmly convinced that a combine exists.

And on October 31st, 1932, the Prime Minister gets this wire telling of the conditions:—

> Tobacco growers are panicky burning their crops three crops burned last night buyers reduced the price to 16 cents high for top crops holding a meeting at Arlington Hotel to-night to reduce further.—that is the growers—a ring is in operation cannot you do something.

And, as a result of this, a commission was appointed to investigate. Now, Mr. Miller, do you say that you were not aware that a panicky condition existed in the month of October within 48 hours after the opening of your market?—A. Well, in the first place, I understood you, Mr. Sommerville, to refer to a panicky condition that existed prior to the opening of the market.

Q. I did?—A. That is what I said, we had no knowledge.

Q. Well, they could not tell how serious that panic would become until you opened the market, but immediately you opened the market then the panic flared and it was widespread, and the Prime Minister of this country was appealed to for protection. Against whom? Did it ever dawn upon you that these people were appealing for protection against you?—A. The Imperial Tobacco Company.

Q. You. You are the president; you are the executive officer, you are the man carrying out the policy of this company?—A. Well, I happen not to have been in 1932.

Q. I beg your pardon. Then it was appealing for protection from the Imperial Tobacco Company?—A. All right, sir.

Q. Now, that is not a condition that ought to exist in a country that has been as generous to the Imperial Tobacco Company as Canada has been, should it, Mr. Miller?—A. Well, I am just going to say that I think, in fairness at any rate, you should realize that these crops—both 1931 and 1932—were extraordinarily high.

By the Chairman:

Q. Mr. Miller, all of the 1932 crop was purchased and marketed. That is not a reason, Mr. Miller. I agree with you this far, that there is a possibility of over-production, although the evidence of very eminent experts before us is this, that the area is very limited. However, we will not argue that. There is a danger, we will say, but it did not justify your company in 1932 taking the course that it did. Honestly, I am at a loss to know why it is that there is so much difficulty in getting a fair admission or an answer from you on these points?—A. Well, Mr. Chairman, on the subject of over-production I just got a rough memorandum here built up from the brief that we submitted.

Q. Of course, Mr. Miller, I do not think that will answer the question at all?—A. I rather gathered you thought there was not over-production.

Q. I did not say that at all. We have evidence from the growers themselves in which they indicate that they have agreed tentatively this year—and I think they would agree with you if they could get some sort of square deal to reduce their acreage 25 per cent?—A. We have been trying to get them to reduce it for the last three or four years.

Q. There was no need to reduce it three or four years ago because it was all sold.—A. According to those figures, the best we could estimate of an over-production taking into account the whole of the Canadian tobacco, and taking into account used and exported, is some forty-five million pounds.

The Chairman: I would not agree with that from the evidence we have before us.

By Mr. Sommerville:

Q. Mr. Miller, you took every pound of the 1931 crop that you wanted, and the whole crop was marketed was it not?—A. I think it was.

Q. Yes, and you paid for that a price. And the next year you took what you wanted and you paid a price, and in each year you reduced the price?—A. And last year we increased it. But I would like to refer you to page 29 of the brief, and while we may have paid a lower price our price was higher than that paid by anybody else.

Q. I agree with you?—A. In connection with the 1932 crop our price figured out at seventeen and three-tenth cents against what was paid by the others of fourteen and three-tenth cents.

Q. I agree with you, Mr. Miller, but you will also agree with me that the quality you got was above the other?—A. That is debateable. We do not know what the others got, Mr. Sommerville.

Q. You knew what the quality was of the whole crop?—A. Yes.

Q. And you got the best?—A. We try to get a good part of it, yes, sir.

Q. The whole basis of your buying, Mr. Miller, is because you get the pick of the crop very largely.

By the Chairman:

Q. But, Mr. Miller, that again does not answer the point at all. Take your page 11. Your price dropped from 32 to 20 in 1931, and to 16 in 1932?—A. That is the average of all, Mr. Chairman; that is the whole crop.

By Mr. Sommerville:

Q. Well now, Mr. Miller, perhaps you can tell us: In the absence of Mr. Buell in the hospital who fixed the low price of 16 or 17 for the crop of 1932?—A. We did not say we did not consult with Mr. Buell; between us all it was a joint responsibility; whatever the price was, I don't recall. The top price was 24 cents.

Q. Oh yes, but the 24 cents was very quickly lost sight of in getting down to 17 on an average, but who fixed the price?—A. The executive committee. You mean the names of them?

Q. Yes, who were the men that fixed that price?—A. Let me see the executive, which consists of the president and vice-presidents—at that time it consisted of Mr. Patterton, Mr. Townsend, Mr. Buell, Mr. Spafford, and myself.

Q. Yes, and what communication did you have with Mr. Harrison of the British-America for the price of the 1932 crop?—A. Well, I do not recall; but apropos of that, at the last meeting you raised some point with respect to Mr. Lea and Mr. Harrison, and I suggested that I draw up a statement on the subject and I would like to have an opportunity of reading it.

Q. You will have it, but you answer me the question. I was dealing with the 1931 crop but now I am dealing with the 1932 crop. Do you tell me now, as a member of that executive, that there was no communication with Mr. Harrison of the British-America in arriving at the price to be paid for the 1932 crop?—A. To my knowledge there was no communication with him.

Q. Do you say there was no communication at all with Mr. Harrison?—A. Well, you mean as to anything about the crop?

Q. As to the price to be paid for the crop?—A. No. I would say there was some discussion with him at some time or other, but it certainly had no influence on it one way or the other as to what price we should pay.

Q. What he said had no influence?—A. Except as I have tried to say before.

Mr. Ilsley: Your own evidence was directly to the contrary of that.

The Witness: I must have misunderstood your question then.

By Mr. Ilsley:

Q. Your evidence the other day was, that he did not designate the price but you discussed price conditions and market conditions, and that these discussions were taken into account in your fixing of the price, and that happened every

year?—A. I do not know that I disagree with that. You asked me about the specific year—1932—and I say I have no recollection of it.

By Mr. Edwards:

Q. I think you said, Mr. Miller, that Mr. Harrison was familiar with world conditions?—A. Yes, sir.

By Mr. Sommerville:

Q. Now then, Mr. Miller, Mr. Harrison is the man in charge of the leaf purchases for the British-America?—A. Yes, sir.

Q. And his brother is the president of the Universal Leaf Tobacco Company?—A. I think so. He was and I believe still is.

Q. In the United States?—A. Yes, sir.

Q. And the two brothers are big leaf operators in the United States?—A. Yes.

Q. For their two companies?—A. Yes, sir.

Q. And the representative of the Universal Leaf Tobacco Company of Canada is the Canadian Leaf?—A. Yes, sir.

Q. And what connection has the president of the Universal Leaf Tobacco Company with the British-America Tobacco Company?—A. The president of the Universal?

Q. Mr. Harrison of the Universal Leaf Company?—A. With the British-America?

Q. Yes?—A. None to my knowledge.

Q. What connection has he with the Tobacco Export Company?—A. None to my knowledge, sir.

Q. None at all?—A. None at all.

Q. What connection has the Export Tobacco Company with the British-America?—A. They are the buying organization for the British-America Company in the United States.

Q. In the United States?—A. Yes.

Q. And were you connected with that organization before coming here, Mr. Miller?—A. Which organization?

Q. With the Tobacco Export Company, Tobacco Products, is it?—A. Well, there was Tobacco Products—

Q. What is the name of that company?—A. Tobacco Products Export Corporation.

Q. And is that owned by the British-America?—A. No, sir. It may have had some stock interest at one time—I think it did—but I do not know whether they have now or not.

Q. And you were connected with them?—A. Yes.

Q. And with the Tobacco Products Corporation?—A. Yes, sir, and also Tobacco Products Corporation.

Q. And Tobacco Products Corporation is owned by the British-America?—A. No, sir. To my knowledge they never had any connection.

Q. And with them what position did you hold?—A. Vice-president.

Q. Vice-president of each company?—A. Of both?

Q. Of both companies?—A. Yes, sir.

Q. And was it through them that you took charge of the sales program for the British-America in Asia?—A. Oh, it was through the Tobacco Products Export Corporation.

Q. What was your position then, Mr. Miller?—A. My position was vice-president.

Q. Vice-president?—A. Yes, sir.

Q. And then did you take charge of sales in Asia?—A. Well, I took charge of sales throughout the world including Asia.

Q. But it was from the United States?—A. Yes, sir. Well, they had a factory in China.

Q. And then it was from that company that you came up to Canada?—A. Yes, sir.

Q. To the Imperial?—A. Yes, sir.

Q. And how long ago was that?—A. That was eight years ago.

Q. And took charge of the sales program here?—A. Yes, sir.

Mr. FACTOR: Mr. Chairman, we seem to be devoting a lot of time to this angle without getting anywhere.

Mr. SOMMERVILLE: I despair of getting any further on the question.

Mr. FACTOR: I do not think even if we sat for six months we would get a definite answer on the points we want answers on. We have spent three days of examination on them now. There are so many angles yet to be considered. I am not at all directing you, Mr. Sommerville, or anything like it.

Mr. SOMMERVILLE: I quite appreciate the difficulty, Mr. Factor.

By Mr. Sommerville:

Q. Now, Mr. Miller, among the statements which you have produced to-day is that showing the interest of the Imperial Tobacco Company of Canada in the B. Houde Company?—A. Yes.

Q. And that shows that you hold 4,352 shares in that company?—A. Yes.

Q. Perhaps you can tell what proportion that is of the whole?—A. 87 per cent approximately. It is on that sheet, is it not, Mr. Sommerville?

Q. Not on this sheet.—A. Well, it is 87 per cent. It is in a letter.

Q. Just let me get that letter. And that was acquired in 1908 by the Imperial Tobacco Company for shares to the value of $25,018.85?—A. Which is that?

Q. Look in your statement of the B. Houde Company.—A. Yes.

Q. The B. Houde Company was acquired in 1908 by the Imperial Tobacco Company, in that statement question number 8. Your letter to-day only deals with 1912. I am going back of that to 1908.—A. Oh, I see.

Q. In answer to a question that I had asked you, question number 8 on a statement forwarded you, you file this information:—

> Imperial Tobacco Company re shares transferred to the British-America Tobacco Company Limited.

And the statement is made by you:—

> In 1908 the Imperial Tobacco Company of Canada, Limited, acquired certain shares in the B. Houde Company Limited. There were issued to the British-America Tobacco Company ordinary shares to the value of $25,018.85 for their holdings in that company.

A. Question number 8, Mr. Sommerville?

Q. Yes.—A. Oh yes. I see that question, sir. What was your point about it.

Q. The point was, that in 1908 the Imperial Tobacco Company acquired the holdings in the B. Houde Company for the sum of $25,018.85.—A. Your question here, I believe, Mr. Sommerville, is " what amount of common shares have been issued from time to time to the British-America or its subsidiaries for purchasing trade-marks, good-will, or shares in the company "?

Q. Yes, and the answer that you make is:—

> In 1908 the Imperial Tobacco Company Limited acquired certain shares in the B. Houde Company, Limited, and there were issued to the British America Tobacco Company, Limited, ordinary shares to the value of $25,018.85 for their holdings in that company.

That is, in the B. Houde Company.—A. Well, I think that they held directly some holdings in the B. Houde Company, and those were bought from the British-America by issuing this stock; that was just a part of it.

Q. That was just a part of it?—A. A part of the whole of the B. Houde Company's stock, yes, sir.

Q. Are you sure that was not the payment made for the entire holdings that you had at that time in the B. Houde Company?

Mr. KENNEDY (*Winnipeg*): Mr. Sommerville, that appears to be referred to at page 72 of the brief filed by the Imperial Tobacco Company:—

> In July, 1908, the Imperial Company took over the businesses of the American Tobacco Company of Canada, Limited, and the Empire Tobacco Company Limited, which latter company was incorporated in 1898, and certain shares of the B. Houde Company Limited.

The WITNESS: Well, the total consideration that was given for the B. Houde Company was $324,758.13.

By Mr. Sommerville:

Q. The total consideration?—A. Yes, for 4,352 shares.

Q. Yes, but that consideration, Mr. Miller, was given to the 1908 company.—A. Some of it, $314,000 of it.

Q. The bulk of it?—A. Yes, sir.

Q. All but a very small amount.—A. Yes, sir.

Q. So that the 1908 company got $314,678.13 for the B. Houde Company holdings. But my point is, that the 1908 company acquired those holdings for $25,018.85 which they subsequently turned over to the new company for $314,678. —A. I do not think that is correct, sir. Mr. Sommerville, we are not trying to evade anything. We will be glad to look into that. We must have misunderstood your question here. Here is what you say on page 2 of your letter of April 30, your question number 8 is:—

> What amount of common shares have been issued to the British-America Tobacco Company or its subsidiaries for purchasing trade-marks, good-will, or shares in companies.

In other words, that $25,000 was issued to the British-America for certain shares that they had in the B. Houde Company; but the old company had some interest in the B. Houde Company itself.

Q. Will you please tell me then, and submit it to us again, what the old company paid for its holdings in the B. Houde Company, and what those holdings were, and what change has taken place since?—A. Will you let me give you a statement on it?

Q. Yes.—A. All right, I will be glad to.

Q. Then you say, that the price paid at any rate was $324,758.13?—A. Yes, sir.

Q. And for that $324,758.13 from the B. Houde Company you have received dividends for the last ten years which already are on the record?—A. Yes.

Q. Apparently running to an average of about $150,000 a year?—A. I do not recall, sir, I have not the figures.

Q. I am looking at them, approximately $150,000 a year on the investment of $324,758.13?—A. Yes.

Q. Then you also submit to us and file to-day a statement of the undistributed profits of your company and its subsidiaries?—A. Yes, sir.

Q. And these undivided profits are:—

National Tobacco Company Ltd.	$ 879,697 59
The B. Houde Company Ltd.	335,383 57
United Cigar Stores Ltd.	325,377 50
Liggett & Myers Tobacco Co. of Canada	142,054 45
Imperial Tobacco Co. of Can. Ltd.	8,138,486 66
Tuckett Tobacco Company	2,065,574 30

Those making a total of $11,886,573.97?—A. I do not know the total, Mr. Sommerville.

Q. I have read the figures correctly.—A. If you eliminate those deficits.

Q. Now then, there are certain items which are in the red?—A. Yes.

Q. Shall I mention them?—A. It is all right with me.

Q. The amounts are not very large.

The CHAIRMAN: Mention them, go ahead.

Mr. SOMMERVILLE: Quebec Leaf Company in the red, 670.61.

The CHAIRMAN: That is 670 dollars?

Mr. SOMMERVILLE: $670.61. I don't know how that would come in a statement of undivided profits, but nevertheless it is here.

Mr. FACTOR: What is that, undivided losses or something?

Mr. SOMMERVILLE: This is like a reserve set up against dividends.

The CHAIRMAN: Go ahead, Mr. Sommerville.

Mr. SOMMERVILLE: Scales & Roberts, Limited, $28,253.43; John Erzinger, $47,545.77; H. Fortier, $24,663.68; United Cigar Stores (Nova Scotia), $271.93; United Cigar Stores (New Brunswick), $226.07; Dominion Tobacco Company, $583.11; Empire Tobacco Company, $583.16; American Tobacco Company of Canada, Limited, $495.60. Those are the amounts that are shown as losses?

The WITNESS: Yes.

By Mr. Factor:

Q. Several of these companies are now dormant, as you call it?—A. Yes.

(Statement of Undivided Profits of Imperial Tobacco Co. and its Subsidiary Companies, as of December 31, 1933, filed and marked Exhibit No. 123).

By Mr. Sommerville:

Q. Then you have filed with us a statement of your daily contracts for purchases of flue-cured tobacco, 1931 crop?—A. Yes.

(Statement of Daily Contracts for Purchase of Flue-cured Tobacco, 1931 Crop, filed and marked Exhibit No. 124).

Q. That is in the Delhi district. Then you have filed with us a statement of daily contracts for purchases in the Leamington district?—A. Yes.

(Statement of Daily contracts for Purchases in the Leamington District, 1931 crop, filed and marked Exhibit No. 125).

Q. Then, you have filed with us the Delhi green leaf purchases for 1930, 1931, 1932 and 1933?—A. Those are by grades, yes.

Q. By grades?—A. Yes. That also indicates Leamington, and the total, a summary.

Q. Yes, this gives the total?—A. Delhi and Leamington, total flue-cured purchases.

Q. This gives the total of your flue-cured purchases?—A. Yes.

Q. In each of those years?—A. Yes.

Statement of green leaf purchases, Delhi and Leamington, filed, and marked Exhibit No. 126).

Q. Then you have filed with us a statement of net income and wages for six United Cigar stores in Toronto?—A. Yes.

By Mr. Factor:

Q. What is the average wage of a clerk in the United Cigar Stores, Mr. Miller?—A. I have not the figures. That statement shows it, under various rates. Just a minute, may be I can get it—I can probably get it for you, Mr. Factor.

(Statement of Income and Wages for six United Cigar Stores filed, and marked Exhibit No. 127).

Mr. FACTOR: Mr. Sommerville, do you intend to go into this wage question?

Mr. SOMMERVILLE: Yes. I just want to have these recorded now, and they will be handed back to me.

By Mr. Sommerville:

Q. Then you have filed with us a summary of the total factory pay-roll for the years 1931, 1932 and 1933?—A. Yes.

Q. For the Imperial Tobacco Company, the B. Houde Company, the National Tobacco Company, the Tuckett Tobacco Company, the General Cigar Company, Andrew Wilson & Company, Limited, and the Punch Cigar Company?—A. Yes.

Mr. FACTOR: Does it show the average pay, or is it lumped?

Mr. SOMMERVILLE: No, it is the gross sum.

(Summary of total factory pay-roll for 1931, 1932 and 1933 filed and marked Exhibit No. 128).

By Mr. Sommerville:

Q. Then you have filed a statement of the salaries and bonuses to the chief executives of your company?—A. Yes.

Q. And of the subsidiary companies that are named?—A. Yes.

(Statement of Salaries and Bonuses to Chief Executives filed, and marked Exhibit No. 129).

Q. You have also filed an agreement for the payment to the British American Tobacco Company of 400,000 shares of your common stock for certain trade marks and goodwill?—A. Yes.

(Agreement between British American Tobacco Co. and Imperial Tobacco Co. filed and marked Exhibit No. 130).

Q. And also an agreement between the Imperial Tobacco Company and Allen & Bowling, the trustees through whom the shares were issued to the chief executives?—A. And others.

Q. And others; that is 420,000 shares?—A. Yes.

Q. And that is to the trust account?—A. Sold to the trustees.

Q. Sold to the trustees, at par?—A. Yes.

Q. $5 each?—A. Yes.

(Agreement between Imperial Tobacco Company of Canada and Allen & Bowling, filed and marked Exhibit No. 131.)

Q. That is 420,000 shares altogether?—A. Yes.

Q. Then this provides how these shares are to be divided among a certain list of employees?—A. Yes.

Q. I observe that half of them, or 200,000 shares, are to go to Sir Mortimer Davis?—A. Yes.

Q. He was the president of the company at that time, I believe?—A. Yes.

Q. And towards this, the company contributed $2 a share?—A. Yes.

Q. And the employees, $3 a share?—A. Yes.

Q. Over a period of time?—A. Five years, I think.

Q. And in your inquiry into that, Mr. Miller, did you find that that was treated as a bonus for services rendered; I mean was the salary or the amount of the allowance to the various employees increased so as to take care of the $3?—A. No. There was no increase in salaries.

Q. That was among executives, I think some twenty-five names?—A. Something like that, twenty-five or thirty, or maybe more.

Q. Is it not a fact that at that time, and ever since, there has been a bonus provision in your by-laws, whereby a certain percentage of your profits would be divided among the executives?—A. Yes.

Q. And every year, to the salary of the executives there would be added a proportion of this bonus?—A. Well, paid as a bonus, yes.

Q. Paid as a bonus?—A. In addition to that they got salary.

Q. I beg your pardon?—A. In addition to that, they got salaries, of course.

Q. And the net result would be that the $3 a share would be paid out of the bonuses that they got from the company?—A. Well, I don't know. I am informed that that by-law of the general bonus goes back a long time prior to the arrangement for the purchase of the shares.

The Chairman: It goes back to 1924.

The Witness: We sent you a copy of it.

By Mr. Sommerville:

Q. I think perhaps we might just put that on the record at the present time. This is a by-law dealing with the amount of bonus that is to be allowed, to be divided among the executives?—A. Yes.

Mr. Kennedy (*Peace River*): Does it give anything to the rest of the employees?

Mr. Sommerville: No. Let me read it:

> Five per cent of the net profits as above defined shall be available for distribution among the president, vice-presidents and directors in such proportion as the president and vice-presidents may determine.

By Mr. Sommerville:

Q. Is that correct, Mr. Miller?—A. Yes, I think it is.

Mr. Lane: In substance; that is part of the by-law.

Mr. Sommerville: That is part of your by-law?

Mr. Lane: Yes.

Mr. Sommerville: Five per cent of the net profits go to the president, vice-presidents and directors.

The Witness: Well, after. Of course, there are certain deductions.

By Mr. Sommerville:

Q. Yes, there are certain deductions; I understand that.—A. Interest on capital.

Q. But just let us see how that operates?

Mr. Factor: I think you have a statement there of $140,000 reserved to bonuses in 1933.

Mr. Sommerville: I have not got that.

Mr. Factor: I made a note of it.

Mr. Sommerville: May I have your copy of it?

Mr. Factor: I have not got it. It is a recapitulation.

By Mr. Sommerville:

Q. I observe that in the year 1929, among twelve directors or executives there was paid out $428,894.42 for salaries and bonuses; is that correct?—A. Yes.

Q. And in the year 1930 there was paid out to eleven directors, and officers, a total of $507,099?—A. Six.

Mr. Kennedy (*Peace River*): That is nearly $50,000 each.

Mr. Sommerville: Oh, I beg your pardon, that is among six.

Mr. Factor: Yes.

By Mr. Sommerville:

Q. Let me go back; I see there are two amounts for each person and that is why I counted twelve. In 1929, among eight persons, was it?—A. Six persons, was it not?

Q. Seven persons in 1929, got $428,894.42. Six persons in 1930 got $507,099.

Mr. FACTOR: Mr. Sommerville, would it not be easier for you just to refer to each one of those and then total it up. We might as well know about it.

Mr. ILSLEY: There are seven in 1930.

Mr. FACTOR: Start with 1929.

Mr. SOMMERVILLE: You mean give the names and amounts?

Mr. FACTOR: Yes.

Mr. KENNEDY (*Peace River*): Salary and bonus together.

Mr. SOMMERVILLE: All right. In 1929, to D. C. Patterson, salary $40,000, bonus $75,744.91; 1930, salary $40,000, bonus $102,087.20; 1931, salary $40,000, bonus $67,364.93; in 1932, salary $40,000, bonus $53,899.74; then in 1933, salary to Mr. D. C. Patterson, $10,000.

By Mr. Factor:

Q. When did Mr. Patterson sever connections as president, Mr. Miller?—A. January 1, 1933.

By Mr. Sommerville:

Q. That is to say, in 1933 Mr. Patterson became chairman of the board?—A. Yes.

Q. And $10,000 is the amount of the salary for that position?—A. Yes.

Q. Then, the next is Gray Miller. In 1929, salary $25,000, bonus $45,446.94; 1930, salary $25,000, bonus $61,253.07; 1931, salary $25,000, bonus $40,419.56; 1932, salary $25,000, bonus $32,339.86; and 1933, salary $25,000, bonus $40,-487.48. Next is H. P. Buell. In 1929, salary $25,000, bonus $45,446.95; 1930, salary $25,000, bonus $61,253.07; 1931, salary $25,000, bonus $40,419.56; 1932, salary $25,000, bonus $32,339.86; and 1933, salary $25,000, bonus $34,017.40. Then we have P. R. Walters; 1929, salary $25,000, bonus $45,446.95; 1930, salary $25,000, bonus $61,253.07; and 1931, salary $25,000, bonus $40,419.56. Did Mr. Walters cease to be a director then?—A. No, he resigned as vice-president. He is still a director.

Q. He resigned as vice-president?—A. Yes.

By Mr. Factor:

Q. In other words, these amounts do not include the directors' fees?—A. There are no directors' fees.

Q. There are no directors' fees; these are salaries?

Mr. SOMMERVILLE: Salaries and bonuses.

By Mr. Sommerville:

Q. What was Mr. Walters' position, may I ask?—A. Vice-president.

Q. Then Mr. C. V. M. Townsend, 1929, salary $25,000, bonus $45,446.94; 1930, salary $25,000, bonus $61,253.07; 1931, salary $25,000, bonus $40,419.56; 1932, salary $25,000, bonus $32,339.86; 1933, salary $25,000, bonus $34,017.40. Then Earl Spafford, commencing in 1931. Previous to that Mr. Spafford had not been a director?—A. He had not been with the Imperial. No, he was not with the Imperial, he was with the Tuckett Company.

Q. And he came to the Imperial then as a director or as a vice-president?—A. He came as a director, to start with.

Q. He became vice-president at any rate, in the year 1931?—A. Yes.

Q. And entitled to a share in this distribution?—A. Yes.

Q. And in 1931, salary, $15,000, bonus, $11,250; 1932, salary, $20,000, bonus, $11,194.98; 1933, salary, $20,000, bonus, $20,000. Then to W. J. Brennan, in the year 1929,—A. Nothing.

Q. He didn't get anything; he had retired?—A. Yes.

Q. F. B. Jack—what is his position?—A. He was a director.

Q. In the year 1929 his salary was $20,000, and his bonus was $11,361.73; in the year 1930 he got just his salary of $20,000?—A. Yes.

By Mr. Factor:

Q. What about Mr. F. P. L. Lane, who was secretary, and Mr. Pilon, treasurer, who are not shown here?—A. I didn't know you asked for that.

By Mr. Sommerville:

Q. This just includes the directors, does it not?—A. Bonuses to chief executives. You are talking about chief executives in that question, Mr. Sommerville.

Q. Yes.

By Mr. Factor:

Q. Mr. Pilon and Mr. Lane are not chief executives?—A. They have not been included in the definition of that, no, sir.

Q. What was Mr. Lane's salary last year, do you know?—A. It is on this record that was given this morning, I think.

By Mr. Sommerville:

Q. P. L. Lane, secretary, 1924, salary $5,740; bonus $1,181.25; 1930, salary $9,000, bonus $1,575; 1931, salary $9,000; bonus $2,475; 1932, salary $9,000, bonus $3,412.50; 1933, salary, $11,000, bonus $7,500. Mr. Pilon. Is he the treasurer?—A. Yes.

Q. Salary 1929; $10,666.66; bonus $1,518.75; 1930, salary $11,000, bonus $1,525; 1931, salary $11,000, bonus $2,475; 1932, salary $11,000, bonus $2,362.50; 1933, salary $11,000, bonus $1,771.86.

By Mr. Factor:

Q. There are other directors, I note, mentioned in the list here that are not included in the chief executives. Do they get the salary?—A. I think some do. On this other list I have tried—

Q. Lieutenant Colonel Henry DesRosiers?—A. He got paid by the Imperial Tobacco Company.

By Mr. Sommerville:

Q. Colonel DesRosiers is head of the Houde Company and derives his salary from that company.

Mr. Factor: Have you an additional list?

Mr. Sommerville: We have an additional list of the executives of all the companies, Mr. Factor. That is filed as exhibit 129.

(List of executives of all companies filed marked exhibit 129.)

By Mr. Ilsley:

Q. Do these executives of the Imperial Tobacco Company get any additional salaries from the subsidiary companies?

The Witness: No, sir.

Mr. Kennedy *(Peace River)*: Do the wages of the rest of the industry compare with these salaries at all?

Mr. Factor: It may be interesting to know, Mr. Sommerville, as a comparison for the committee that from the Dominion Bureau of Statistics, issued under the authority of the Honourable H. H. Stevens, for 1932, which is the last

I have got, there is a statement showing that in the year 1930 in the tobacco industry there was the total number of employees, male and female, of 7,215 people receiving a total wage in that year of $4,976,302, or an annual average wage of $689 in 1930.

Mr. SOMMERVILLE: I have not seen it on this list. I am afraid those figures are missing in our exhibits.

Mr. FACTOR: I would like that. I could get from my personal research only this information showing this annual wage of $689 for employees, male and female, in 1930. I would like, Mr. Sommerville, if you could obtain the statistics either from the Imperial Tobacco Company or from the tobacco industry as a whole showing the number of employees male and female, and the wages received in 1931-32-33.

Mr. SOMMERVILLE: Well, I think we have that. There was a statement showing the gross. Well, I may say we can obtain the number of employees.

Mr. FACTOR: Has that gentleman got for me the average pay of a clerk in the United Cigar stores?

Mr. SOMMERVILLE: We will deal with that question of the United Cigar stores.

By Mr. Sommerville:

Q. There are six examples that you have furnished me. If you will look at that exhibit 127 I observe that with respect to store number 1 the direct wages in that store were $4,632.89 in the year 1931?—A. Sales of $42,000.

Q. And they were reduced to $2,991.99 in the year 1933?—A. Against sales of $33,000.

Q. Sales were reduced from $42,000 to $33,000?—A. Yes.

Q. And salaries were reduced—wages were reduced from $46,000—

The CHAIRMAN: Hundred.

Mr. SOMMERVILLE: Yes, hundred—I am afraid I am getting into the big money class. It is hard to get down to ordinary hundreds—wages were reduced from $4,600 to $2,900. Now, Mr. Miller, I observe similar reductions in each of the six stores that are mentioned?

The WITNESS: Yes.

By Mr. Sommerville:

Q. And, apparently, they are relative reductions. Have there been reductions of wages in the United Cigar stores from 1931 up to date?—A. Yes, there have been some reductions in wages, no special scale of anything like 10 per cent or 20 per cent or anything of that sort, but here and there there have been quite a few reductions.

Q. You say here and there?—A. I mean it has not been all inclusive, but there have been quite a few.

Q. It was not a single rate for everybody?—A. No.

Q. But there has been a substantial reduction in wages?—A. Yes.

Q. In the United Cigar stores during those years?—A. Yes.

Q. And has there also been a reduction in the number of employees in those stores during the same number of years?—A. I could not answer that off hand. You mean the same stores?

Q. Yes?—A. I do not know, Mr. Sommerville.

Q. My reason for asking is that my information is that there has not only been a reduction in weekly wages but there has ben a reduction in the number of employees?—A. Yes. I will inquire into it and advise you, sir.

Q. Has there been any reduction of wages of employees in the Imperial Tobacco factories?

Mr. Factor: May I get an answer to my question now before we leave the United Cigar stores. I want to get the average wage of a clerk working in the United Cigar stores in Toronto?

The Witness: The chief clerks' average salary is $25.45 per week.

Mr. Factor: How many hours a week does he work?

The Witness: 53·97. The maximum is $38.18 and the minimum is $15.27.

By Mr. Sommerville:

Q. Those are male clerks?—A. Yes, sir. Assistant clerks; the average salary is $19.79. The maximum is $36.28 and the minimum is $10.68.

Q. Now, how many employees have you at $10? Perhaps I am wrong in my deduction. Mr. Miller, but you have taken the maximum at $36 and the minimum at $10?—A. Yes. $10.68.

Q. Have you taken these two figures to make the average, or is that the average over the existing number of employees?—A. The total payroll.

Q. So that on your total number of employees the average is $19.79?—A. Yes, $19.79.

Mr. Factor: For 57 hours.

The Witness: For 54 hours. Approximately 53·97. The average of all employees of the company including the office, male or female is $25.09.

By Mr. Sommerville:

Q. That is the average for all the— —A. Clerical, store clerks, office, warehouse, excluding officials.

Q. That is excluding all the officials?—A. Yes, sir.

Q. Have you the figure as to how many you have at $10?—A. No, sir; I can give you the total number.

Q. The total number at $10?—A. No, sir—the total number making up the total quantity which establishes that average that you were referring to. It is not just an average between the two extremes. There are 199 assistant clerks, 167 chief clerks.

Mr. Factor: Have you got the number who got the maximum?

The Witness: No, it is not here.

By Mr. Sommerville:

Q. That will be worked out, Mr. Factor, I am sure. Then, Mr. Miller, has there been any reduction in wages of the employees of the factories of the Imperial Tobacco Company since 1930?—A. There was no general reduction, no, sir.

Q. No general reduction; what do you mean by no general reduction?—A. There has been no real reduction in average wages.

Q. Mr. Factor suggests that there is no flat reduction like members of parliament have to take. There has been a reduction?—A. Well, as I believe we explained to you in one of the letters, there was an old attendance bonus in our factory dating back from war times of 10 per cent for this attendance and we revised the rates some up and some down on piece work, and there was a net of that 10 per cent, I think the figure was 2 per cent—a net reduction of 2 per cent, I think.

Q. On that bonus basis?—A. Yes, sir.

Q. In other words, after the readjustment of this bonus basis you did not wipe out the whole 10 per cent?—A. No.

Q. You just wiped out 2 per cent of it?—A. Yes, of those affected.

Q. Of course, it would be only those affected. Then, I observe that your total payroll for 1931 in your own factories was $2,231,330.70. In 1932 it was down to $2,141,719.35. In 1933 it was down to $2,040,620.35. Is that the measure

in which the reductions would be reflected?—A. No, that change was only made —that referred to in July, 1933.

Q. So that only half of the reduction would be reflected in that figure up to 1933?—A. Approximately.

Q. I observe that wages in these plants are down a sum of approximately $200,000?—A. That is all four plants.

Q. Yes, on all four plants?—A. Yes, the Montreal factory.

Q. On what basis would you say the reduction in wages has been measured? —A. It is only a question of volume, I think.

Q. No, the reduction in wages?—A. I mean that the less business we have the less employees we have.

Mr. Factor: I thought it was piece work?

By Mr. Sommerville:

Q. I thought you said there was a reduction?—A. You mean this 2 per cent?

Q. Apart from the 2 per cent which is only a re-adjustment of this bonus basis, is there not a re-adjustment or a reduction in wages of employees?—A. You mean of our factory employees?

Q. Factory employees?—A. No, not in the rates.

By Mr. Factor:

Q. Let us take a concrete case, Mr. Miller. Take a cigar maker working in one of your factories in Toronto, we will say, on a 5 cent cigar, that, I understand, sells to the trade at $37 per thousand. What does the worker get working on that cigar?—A. That is mostly a machine made cigar.

Q. Yes, it is machine made?—A. I don't know.

Q. I have received the information that the worker gets 75 cents a thousand for those cigars; that four girls working on a machine get $3 for making a thousand cigars?—A. $3 a thousand?

Q. A thousand for 5 cent cigars?—A. How much a week?

Q. If they are doing this work I am not concerned with the week, I am concerned with the scale of wages paid to four girls working on a machine?—A. Weekly wages would be a guide.

Q. I am coming to that later. Four girls working on a machine producing 5-cent cigars are paid at the rate of 75 cents a thousand each or $3 a thousand for the four girls—for the four of them on the condition that those four produce a capacity of 3,700 cigars?—A. 3,700 in one day?

Q. Yes?—A. I haven't got the figures.

Q. Would you mind getting that information for me?—A. I will be delighted.

By Mr. Sommerville:

Q. Now, I observe, that the wages in the B. Houde company are down from 1931 from $86,575 to $62,426.22?—A. I think that is entirely due to volume, sir.

Q. Will you say there has been no reduction in the rates?—A. Yes. That was the same sort of adjustment in the attendance and most of that is due to lesser business, undoubtedly.

Q. Mr. Miller, will you just acquaint yourself with the exact information. My information may be wrong?—A. Yes, sir.

Q. But I am asking for this information. My information is that there was a wage cut to the employees of the B. Houde Company Limited, the National Tobacco Company, Limited, the General Cigar Company, Limited, and the Punch Cigar Company, Limited. Now, if you can, obtain the information for us upon these. That is, the total figures?—A. We will cover that later. I do not think that is right.

Q. The total figures for your wage scale for 1931 show $3,430,952.33, and for the year 1932, $3,234,548.67 and for the year 1933, $2,981,944.52—a drop from 1931 of approximately half a million dollars from a wage scale of $3,430,952.37?—A. Primarily due to a difference in volume, I am sure.

Q. Well I have no doubt you will be able to tell us just what amount of wage reduction has taken place in those few years.

Mr. FACTOR: I should like Mr. Miller to prepare a statement for the committee, taking the rates of the cigarmakers in Toronto and Montreal, to show the distinction between the hand-made cigar and the machine-made cigar, the different rates of pay.

The WITNESS: You mean the average earned on a machine?

Mr. FACTOR: If my information is correct, there has been a reduction in the scale of pay of hand cigarmakers.

The WITNESS: In Montreal?

Mr. FACTOR: In Toronto as well.

The WITNESS: We will get it all. Do you want a comparison between the net cost of making cigars by hand and machine?

Mr. FACTOR: Also the difference. If my information is correct, Mr. Miller, I understand that cigarmakers were able to earn and were earning a higher scale than they are now—the scale was reduced in the last three years?

The WITNESS: I will go into it and give you all the particulars.

Mr. YOUNG: I am interested in the consumer, and should like to know where he comes in, in this business.

Mr. SOMMERVILLE: We are going into that.

By Mr. Sommerville:

Q. Will you be good enough to let me have the statement you have prepared showing the names of the producers from whom you purchase tobacco, so that it may help us with the books to-night?—A. Here is one with regard to the 1931 crop, is it not sir?

Q. This is for the 1931 crop. Now, are the contracts separate so that we shall know which contracts are Leamington and which Delhi contracts?—A. That can be done and is done.

Q. Are they arranged alphabetically?—A. There is no order taken at all. Here are some stubs in a book. Here is an illustration. The only order is the date of execution.

Q. This one book would probably represent Wilson's purchases, would it not?—A. I do not know; one buyer.

Q. Will that be a guide to us?—A. I think so.

Mr. FACTOR: I do not know that I made myself clear, but I should like these gentlemen to produce to the committee the pay-rolls of 1930, 1931, and 1933.

The CHAIRMAN: Of what?

Mr. FACTOR: The Imperial Tobacco Company and all subsidiary manufacturing concerns. I should like to have the number of male and female employees, and their wages segregated, if possible.

The WITNESS: You do not want the individual employees?

Mr. FACTOR: No.

The WITNESS: You want one week?

Mr. FACTOR: I should like something the same as I get from the Dominion Bureau of Statistics, say for the year 1930, which shows so many male and

female employees. I should like you to produce statistical information along that line.

The WITNESS: That would be one week, or some given time, because it would be hard —

By Mr. Factor:

Q. The total for the year?—A. It is not totalled for the year. That is an average week given by the Dominion Bureau of Statistics.

Q. This gives the total for 1930?—A. The highest number of employees in any one week in a year.

Q. Could we have the total for a year?—A. You want it for one particular week? You would have to take a high week, or a maximum week—we can give you the same figures as that, if you wish.

Q. You mean some of them work only part of the year?—A. They are coming and going, seasonal.

Q. Is your cigarette manufacturing business worked on a piece-work basis? —A. Some of it is.

Q. Most of it?—A. A good part of it, about 50 per cent—the best part.

Mr. SOMMERVILLE: I think, Mr. Factor, if you were to accept the suggestion of a week or two weeks if you like at a certain season of the year, one in the spring, and one in the fall, that would accomplish the purpose.

Mr. LANE: Might I suggest, Mr. Sommerville and Mr. Factor, that we must compare the Imperial's experience with the figures published by the Dominion Bureau of Statistics. We can give you the figures which we supplied to the Dominion Bureau from which they in turn built up that particular record, then you will have comparable figures.

Mr. FACTOR: I want to get at the figures for 1931 and 1932.

Mr. LANE: But you want them comparable.

Mr. FACTOR: Comparable to the figures you supply for this report.

Mr. LANE: We can build it up on that return.

Mr. FACTOR: Also in piecework, I want the scale of wages that you pay.

Mr. LANE: To the particular operator.

Mr. FACTOR: Yes.

Mr. MILLER: We will work out something on that, sir.

By Mr. Edward (To Mr. Miller):

Q. I have before me this statement of the United Cigar Stores, the statement of income and wages for the year ended December 31, 1933, on six Toronto stores?—A. Yes.

Q. There is only one store of this group apparently that is in black; the others are all in red?—A. Yes, sir.

Q. Now, I presume that these stores being in a preferred class buy at the best prices?—A. Yes.

Q. If your stores, owned by you, six stores in the city of Toronto, the United Cigar Store, buy at the best prices from the Imperial Tobacco Company, there is not much chance for an independent dealer, is there?—A. You will find—we can give you full particulars on this—I was looking at these figures on the same basis. United have had leases on these stores for a good many years. There is one of them there, I think it is at Dundas and Keels, next to the bottom; they advised me that they have had that lease since 1921, and when they took that lease they were doing a $100,000 a year business there, and they took this lease on that basis—I think it must have been a 20-year lease, I do not know the exact dates—the lease feature is a very big feature, they

have a very expensive lease there and they can't get out of it, and they have to stand that, it is very expensive.

Q. I was wondering if that same condition would obtain pretty largely through the better class of cigar stores in the city of Toronto, the Independents I mean?—A. I do not know, I do not think it is quite comparable, Mr. Edwards. In the first place you take recently you probably have heard of it, owners can go to the landlord and get reduction in leases; but because the United Cigar Stores is interested with Imperial, they have not been very successful in getting anybody to reduce their lease.

Q. Just this point here: here are businesses, roughly speaking, doing around $33,000 to $40,000 a year, which works out in a very rough way to about $100 a day; I was just wondering what chance your independent fellow has of making any money on that basis?—A. I do not think it is really comparable. I will be very pleased to show you all the details of it. You asked for the figures.

The CHAIRMAN: Excuse me, gentlemen, it is now six o'clock and I think we will not open up that question to-night.

By Mr. Kennedy (Winnipeg):

Q. Pardon me, just a moment, Mr. Chairman. Mr. Miller's exhibit, filed as exhibit No. 123, showing the undivided profits of the Imperial Tobacco Company Limited and subsidiaries, as at December 31, 1933, their audited accounts; that statement shows for United Cigar Stores Limited undivided profits of $325,377.50?—A. Yes.

Q. Where did they get these profits; if they are fortunate enough to have these leases for a period of years, that is what is left there last year—speaking from recollection they lost about $200,000 on their operations, but they still have undivided profits?—A. From previous years.

Q. The question of losses is almost entirely dependent on the price at which you sell goods?—A. No, the cost of operation is a big feature.

The CHAIRMAN: We will go into that at a subsequent meeting, we will not pursue that now. We will meet again to-morrow morning at eleven o'clock.

The committee adjourned at 6 p.m. to meet again Wednesday, May 9, 1934, at 11 a.m.

HOUSE OF COMMONS, ROOM 368,

May 9, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 a.m., the Hon. H. H. Stevens presiding.

Mr. Norman Sommerville, K.C., of Toronto, appeared as counsel for the committee.

The CHAIRMAN: Order, gentlemen. The minutes of yesterday record the names of the witnesses, exhibits filed and correspondence read. I declare the minutes approved.

GRAY MILLER, examination resumed.

By Mr. Sommerville:

Q. Mr. Miller, I want to file a statement that you have prepared, of the daily purchases of the 1932 crop. This is a statement that was filed with Mr. Sutherland. Just see if that is not the statement prepared by your company? —A. I presume it is the same. It looks like it.

Q. That is the document submitted to Mr. Sutherland?—A. Yes.

(Statement of Daily Purchases of 1932 crop, filed and marked Exhibit No. 133).

Q. I observe in the statement of the affairs of the Imperial Tobacco Company issued by the Financial Post Corporation Service as a service to brokers, this statement which I would like your comment on, as to whether or not it is correct: "The company produces and packs tobacco and manufactures cigars and cigarettes. The company controls approximately 90 per cent of the cigarette business and 60 per cent of the tobacco business in Canada." What do you say as to that?—A. I don't know. We made no such statement. We have never given out any such statement as that.

Q. What do you say is the amount of cigarette business of Canada which you control, if it is not 90 per cent?—A. About 75 per cent, cigarettes.

Q. And what about the tobacco business, about what per cent?—A. Cut tobacco, about 66 per cent.

Q. On cut tobacco, about 66 per cent, you say?—A. Yes.

Q. And what about other tobaccos; what about the other forms?—A. Plug tobacco, 49·8 per cent.

Q. Yes?—A. Snuff, 97 per cent.

Q. Yes?—A. Little cigars, 91 per cent.

Q. Yes?—A. Cigars, 57 per cent.

Q. Cigars, 57 per cent?—A. Yes, a total, we have estimated, something under 70 per cent.

Q. The total average of the whole is something a little under 70 per cent? —A. Yes.

Mr. KENNEDY *(Winnipeg):* What is included under the heading "Tobacco"? You referred to cigarettes, and then tobacco.

Mr. SOMMERVILLE: Cut tobacco.

The CHAIRMAN: Smoking tobacco.

By Mr. Sommerville:

Q. Package tobacco, I presume?—A. Yes, both for pipe and cigarettes, rolling your own, fine cut.

Q. Package tobacco?—A. That includes all the companies.

Q. That includes all your subsidiaries. I quite understand that?—A. Yes, whether they are 100 per cent owned or otherwise.

Q. May I clear this up. Perhaps you can tell us if this statement which I find in the Tobacco Journal is correct, that in the United States in 1933 the administration took charge of the situation and the tobacco companies agreed to increase the price to the growers by approximately 50 per cent over what they were paying before?—A. I don't recall the percentage; but as I understand it, it was to put the price up to 17 cents for bright, flue-cured tobacco.

Q. That is the average price?—A. For the domestic manufacturers, and for a specified amount limited to 250,000,000 pounds out of that crop, which was about 725,000,000 pounds.

Q. The price was raised from an average of about 10 cents to abont 17 cents?—A. I don't remember the increase.

Mr. LANE: From twelve cents and a fraction.

Mr. HEAPS: What year was that, Mr. Sommerville?

By Mr. Sommerville:

Q. That was for the 1933 crop?—A. Yes.

Q. In other words, the price of the 1932 crop, the average, was 12 cents; and by reason of the action of the government it was raised to 17 cents?—A. That would not be the average of the crop.

Q. Well, the average paid by those companies?—A. Yes.

Q. The same companies that had been buying then agreed with the government to pay 17 cents for what they had been paying 12 cents the previous year?—A. I think so.

Mr. BUELL: The 1932 crop was 11·3.

Mr. SOMMERVILLE: That is so, 11·3 for 1932; and it was raised to 17 cents.

Mr. BUELL: 250,000,000 pounds.

By Mr. Sommerville:

Q. Yes, 250,000,000 pounds in 1933?—A. Yes.

Q. And was there some amount that had to be paid back to the farmers on their 1932 crop?—A. Not to our knowledge, sir.

Q. Nothing of that kind?

The CHAIRMAN: I saw a report on that to the effect that the leading companies made the reverse of a rebate, paid some additional bonuses to those from whom they had previously bought at abnormally low prices.

Mr. BUELL: I understand that they had a form of what they call a processing tax that was to apply to the farmers who agreed to a 30 per cent reduction.

The CHAIRMAN: No, that is not it.

Mr. SOMMERVILLE: That is a different thing.

The CHAIRMAN: This was to properly compensate the farmers from whom they had bought, earlier in the season, a large portion of their crop at low prices, and to bring them up to the level of the higher price, is that right?

Mr. BUELL: I think so.

Mr. HEAPS: Are these the N.R.A. Codes in the United States you are referring to now, Mr. Sommerville?

Mr. SOMMERVILLE: No, this is something special.

Mr. Factor: It is under the Agricultural Adjustment Administration.

Mr. Sommerville: Under the Agricultural Adjustment Administration the president stepped in when the abnormally low prices were being paid at the beginning of the crop in Georgia, and succeeded in getting an agreement to pay 17 cents instead of about 11 cents on the previous year's crop. For those crops that had already been bought in 1933 at less than 17 cents, the companies had to rebate or had to pay a bonus, or reimburse those farmers from whom they had bought so as to bring their average price up to 17 cents.

The Witness: That is right, Mr. Sommerville, but I think you should mention here that that was only for the domestic manufacturers.

Mr. Sommerville: Oh, yes, I understand that.

The Witness: That gave an average on the whole crop, according to the information we have, of 15·2 cents.

By Mr. Sommerville:

Q. Oh, yes, they could only deal with domestic buyers?—A. Yes.

Mr. Kennedy (*Peace River*): You said the president persuaded them. How did he persuade them?

Mr. Sommerville: Ask the tobacco men.

Mr. Factor: He made an agreement.

Mr. Sommerville: An agreement was made.

By Mr. Sommerville:

Q. And that was followed up, was it not, Mr. Miller, by an agreement that the buyers of Burley and similar tobaccos would increase their price by 50 per cent?—A. I don't remember the figures—12 cents for Burley.

Q. 12 cents for Burley, from the previous price of about 7 cents?—A. I don't know the previous price. We have not any record of it.

Q. Is that not your recollection?—A. I might ask Mr. Lea.

Mr. Lea: I think that is quite right.

By Mr. Sommerville:

Q. So that that Burley price was increased from 7 cents to 12 cents approximately?—A. Yes.

Q. And on the flue-cured it was raised from 11 cents to 17 cents, approximately?—A. For domestic manufacturers.

Q. Then I find that the manufacturers made the announcement to the president that the tobacco company representatives declare that after paying the higher price under the agreement, it would not affect the price to the consumer?—A. I don't remember that. All right, it may be so. I just don't know.

Q. I thought perhaps you, being in the business, would be interested in knowing that you could pay 50 per cent more for your leaf and not increase the price to the consumer?—A. Well, my recollection is—you want to know what my recollection is?

Q. Yes?—A. As near as I know they were allowed to increase their price to the trade by whatever increased cost was produced by this increased price to the farmer, and I have heard—whether it is so or not, what with labour and what not—some 50 cents a thousand is my understanding of what they were allowed to increase their price to the trade.

Q. To the trade?—A. As to the question of the price to the consumer, as you may know the retail price in the United States has been in such a chaotic condition for years that I don't know that they could say what the price to the consumer was, so I am not sure. The standard price was 15 cents a package.

That was the original understood price, 15 cents for 20. I dare say that the trade and everybody would still sell at 15 cents, if they could establish a standard price, and be better off; that may be what they meant.

By Mr. Factor:

Q. Part of the arrangement, as I understand it, was that the manufacturer's price must be in direct relationship to the increased cost?—A. That is right; which I understand was about 50 cents per 1,000 for cigarettes.

By Mr. Sommerville:

Q. Apparently the difference was absorbed somewhere before it reached the consumer?—A. Well, some consumers paid it. Yes, the trade may have absorbed it.

Mr. KENNEDY (*Peace River*): How do prices of the finished product, in cigarettes, compare in Canada and the United States?

Mr. SOMMERVILLE: I might just follow that through.

By Mr. Sommerville:

Q. As I understand it, Mr. Miller, Lucky Strikes, Camels, Chesterfields and Old Gold, 20 in a package, sell at two for a quarter?—A. They sell at anything, as far as my knowledge goes, from probably 11 cents a package up to 15 cents a package.

Q. Originally it was a 15 cent package?—A. Yes.

Q. But generally speaking is it not fair to say that the average is two for a quarter through the States?—A. Well, that would be hard to say.

Q. What do you say was the average?—A. I frankly never tried to figure what the average is. You take all the big chain stores, take A. & P., they have sold them by cartons, as I have heard,—it is all hearsay and what I have read—with probably not more than 1 per cent or 2 per cent margin on them, and all the other chain stores have followed. The other little retailers have got to follow more or less, depending on their proximity to the chain stores. I don't know what it is.

Q. Let us start at 15 cents?—A. All right.

Q. They do not sell for more than that?—A. I don't think so, not the big brands.

Q. And they sell much less, I have been told?—A. Yes.

Q. So let us start with 15 cents?—A. All right.

Q. The excise tax in the United States is $3 a thousand?—A. Yes.

Q. That is 6 cents for 20?—A. Yes.

Q. That leaves 9 cents for the manufacturer, the jobber, the retailer, the grower and suchlike; that is, 9 cents is left to be distributed between the grower, the manufacturer, the jobber and the retailer?—A. 9 cents?

Q. Yes, 6 from 15?—A. Yes.

Q. And if they are being sold at two for a quarter, as I am told, then it is really 7 cents that is left to be distributed?—A. Two for a quarter would be 6.

Q. It would be 13 cents?—A. Yes.

Q. So that there is from 7 to 9 cents that is available for distribution between the various parties that take part in the production of the cigarette. In Canada similar quality cigarettes sell at what price, 20 for how much?—A. 20 cents.

Q. 20 for 20 cents?—A. Yes.

Q. And here you have a $4 excise tax?—A. Yes, and sales.

Q. That is 8 cents a package?—A. Yes, and 6 per cent sales tax.

Q. That is 12 cents per package?—A. And 6 per cent sales tax.

Q. All right, let us take 6 per cent sales tax; that is $1\frac{1}{5}$ cents on 20 cents?—A. Your sales tax is not on the consumer's price.

Q. It is not on the consumer's price?—A. No, on the manufacturer's price.

Q. For the purpose of argument let us say the sales tax amounts to $\frac{3}{4}$ of a cent a package?—A. 45 cents a thousand.

Q. Well, it is less than half?—A. No, 45 cents a thousand would be—

Q. Well, let us say a cent?

Mr. Lane: 45 cents a thousand, and $4 excise, and then take the duty.

Q. And there are fifty packages in a thousand?—A. Yes.

The Chairman: Less than one cent.

Mr. Sommerville: Less than a cent.

The Chairman: We will say a cent.

The Witness: I just wanted to be accurate.

By Mr. Sommerville:

Q. Let us say for purposes of argument, a cent?—A. All right, sir.

Q. Then, excise 8 cents a package, and the sales tax one cent a package, that is nine; and that leaves eleven cents in Canada for distribution between the grower, the manufacturer, the distributor, the jobber and the retailer?—A. Yes.

Q. As against from seven to nine cents in the United States for relatively the same thing?—A. All right, sir.

Q. That is approximately the position, is it Mr. Miller?—A. Yes. On page 77 of my brief there I show the split-up of a 25 cent package (25 for 25 cents), which you refer to. Out of the 25 cents the retailer gets 3·3 cents, the jobber or wholesaler 2·2 cents, the Canadian Government in excise and sales taxes 11·1 cents, and the manufacturer gets 8·4 cents. That is what he has with which to pay for labour, the farmer for the tobacco, and for advertising, selling expenses, and so on.

Q. That means that after paying the taxes, excise and sales, on that 25 cent package, there is 13·9 cents per package to pay for the manufacturer, jobber, retailer and grower?—A. What is that again.

Q. From the 25 cents take 11·1 cents?—A. Oh, yes.

Q. And that leaves 13·9 cents?—A. Yes.

Q. To cover the grower, the manufacturer and the distributor?—A. Yes.

Q. That is the breakdown?

Mr. Ilsley: Have you any comparable United States figures?

Mr. Sommerville: The only thing I think is the 7 to 9 cent figure.

The Witness: I think I have something, sir.

By Mr. Ilsley:

Q. Have you any figure to compare with the 13·9 cents?—A. I think so, sir. I see here is a statement comparable, at 15 cents to the consumer.

Q. In the United States?—A. In the United States the manufacturer has got $2.38 to take care of the other; the manufacturer has 31 per cent. At fourteen cents—

Q. Wait a minute now, Mr. Miller, what is that at 15 cents?—A. The manufacturer's proportion out of that consumer's dollar.

Q. Perhaps you will give us the consumer's dollar less the tax, to be comparable?—A. That is where there is a state tax of one cent. I will start at the beginning. The $12\frac{1}{2}$ cent package, that is what you spoke of: internal revenue tax $3; manufacturers $2.28, dealers $·87.

By Mr. Factor:

Q. Is that per hundred?—A. Per thousand. Or percentages: internal revenue, 48; manufacturers, 38; dealers, the trade, 14 per cent. At 20 for 13 cents: internal revenue tax $3, or 46·2 per cent; manufacturers $2.38, or 36·6 per cent; dealers $1.12, or 17·2 per cent.

Q. Is there any way you can break up a package of cigarettes comparable to the way in which you have broken it up on page 77?—A. I think we could, yes.

By Mr. Sommerville:

Q. I think if you would be good enough to do that and file it with the committee, we would appreciate it?—A. We will be glad to.

Q. For your 15 cent and 20 cent package?—A. Along the lines on page 77.

Mr. Factor: Yes, showing the retailer, the jobber and so on.

By Mr. Senn:

Q. Would it not be possible in your computation on page 77, the way you have it broken up, to have stated the amount which went to the producer?—A. It might be possible to get it.

Q. You have the comment following that about the statement by Professor Leitch that the growers would be happy if they received 1·75 cents per package? —A. Yes.

Q. Evidently that is more than they do receive?—A. Professor Leitch says the growers would be happy if they received—

By Mr. Sommerville:

Q. What you say in your brief is:—

> Professor Leitch stated that the growers would be happy if they received $1\frac{3}{4}$ cents per package, which, on the basis of his figuring, would be $23\frac{1}{3}$ cents per pound green weight to the farmer, which is equivalent to an increase of approximately 23 per cent in price to the grower.

In other words, $1\frac{3}{4}$ cent per package would assure a 23 per cent price increase to the grower?—A. Of the previous year's price.

Q. Of the previous year's price, that is right?—A. You have got roughly 20 cents there.

By the Chairman:

Q. $1\frac{3}{4}$ cents per package, which is the basis you say in your analysis of Mr. Leitch's figures would be $23\frac{1}{3}$ cents per pound?—A. Yes, sir, green weight.

Q. To the farmer, which is equivalent to an increase of approximately 23 per cent in the price to the grower. That is in your brief. It would bring the price to the grower up $23\frac{1}{3}$ cents from what was actually paid in that year?—A. In 1933.

Q. And the amount of the increase would be 23 per cent?—A. To the grower.

Q. Yes?—A. Yes, sir.

By Mr. Sommerville:

Q. In other words, $1\frac{3}{4}$ cents per package is 23 per cent more than he got the previous year?—A. That is right.

By Mr. Kennedy (Peace River):

Q. Referring to your argument on page 77: you say: "In our opinion this is slightly higher than is advisable, for the well being of the tobacco growing industry, because of their having an exportable surplus and it being necessary for them to meet world (Empire) prices, as previously dealt with?—A. Yes, sir.

Q. Why does the tobacco grower have to meet world prices, or export prices in our domestic market; why should he, you are having the advantage of the tariff, why should not he get the advantage of the tariff?—A. Well, sir, I would like to say that we feel certainly that the law of supply and demand has some bearing on the price to the farmer, and the export market has come into it, when they raise a surplus of tobacco—in our opinion there has been a surplus of tobacco, with due deference to opinions that differ, that is our opinion—we believe there has been, at least at the present time; that on the market including what we have bought from the 1933 crop which was more than we needed and we paid a higher figure, went into try and help and protect the market; we believe that there is even now 25,000,000 pounds of tobacco, flue-cured tobacco, on the market, and held by manufacturers that they do not need; that is more than their normal requirements.

Q. Why does it not affect the price of your finished products in Canada?—A. It has affected the price of our finished product.

Q. It has not brought it down to world prices?—A. What world price? Do you mean the world price of the manufactured article; naturally the world price of the manufactured article in every country is different. We are labouring—take the tax on cigarettes, $4 a thousand, and 6 per cent sales taxes, and all the other things. You must compare that—

Q. I do not think there is anything to that argument at all, Mr. Miller?—A. You must compare—

Q. But that difference would improve the price of 23¼ cents for the grower in Canada?—A. We are willing to pay any agreed price that the manufacturers get together on and are willing to pay.

Q. But you are the 80 per cent buyer?—A. No, sir, we are not the 80 per cent buyer.

Q. You were the 80 per cent buyer?—A. When we were buying 80 per cent, we paid a higher price.

By Mr. Sommerville:

Q. Now, Mr. Miller, as a matter of fact is not this just the situation: in the last five years your net profits have amounted to $32,477,166.07, from balance sheet you filed?—A. I haven't the figures, sir, you can add them up.

Q. I have had them completed from balance sheet you filed of the Imperial Tobacco Company alone; and in addition to them you have in the statement yesterday undivided profits of subsidiary companies of $3,748,087.66; making a total of $36,225,253.77?—A. I do not think that is just a fair statement, you have taken certain years there, Mr. Sommerville.

Q. I am taking the undivided profits from your statement?—A. But those undivided profits might, and probably were, earned prior to the period you mentioned.

Q. I am only taking these figures out of the report. We could show that you have added to your depreciation enough to cover 100 per cent on some of your subsidiaries. I am not breaking down these figures, I am just taking these as undivided subsidiary profits?—A. I just wanted to remind you of that feature, sir; it is all right, sir, quite.

Q. In addition to that, the amount that has been paid to six executives—five only in 1932 and 1933—in these five years was $1,861,923.68; or a total of $38,087,177.38; during which time you have reduced the price to the producer 50 per cent, and to the wage earner to whatever amount you say?—A. Reduced the price to the consumer, and paid enormous taxes to the government, too, sir.

The CHAIRMAN: No, no; that is all clear.

By Mr. Sommerville:

Q. Your net profit, after you have taken care of everything else.

Mr. MILLER: Do you say that out of this amount there was anything due by way of taxes to the government?—A. No, sir.

Q. You have taken care of every government tax, every excise tax; you have taken care of all the depreciation, and it has been plenty; you have set up reserves out of funds received as dividends; you have paid everything, all the wages owed to everybody, and you have paid this amount, and you have this amount that I have referred to—$38,000,000?—A. I would like to have an opportunity of checking that, sir.

Q. I am taking it from the statement you filed yesterday?—A. Yes, sir.

Q. And, Mr. Miller; having reduced your price to the producer by 50 per cent that just added to the depression until he finds himself down and out?—A. What price of 50 per cent do you mean.

Q. I mean the price that you reduced to the producer in 1931, on your own statement you paid 31 cents and a fraction, approximately 32 cents; and in 1932 you paid 17 cents, and that is a 50 per cent reduction?—A. I think it is fair to say that when we paid 17 cents the other people paid 14 cents for their tobacco.

Q. But they would not have paid 14 cents if you had not started at 17, and you knew it?—A. How did we know it, sir? Naturally we have to protect ourselves.

Q. You are doing it?—A. Against under selling by other manufacturers, if they are going to buy tobacco at a very low price.

By the Chairman:

Q. But, Mr. Miller, the lower average price paid by others is not comparable to yours, because, as you have yourself stated, the Imperial Tobacco Company buys the largest proportion of the higher-priced tobacco?—A. Yes, sir.

Q. And all these others mentioned in the general comparisons which you have made in your brief include the lower priced tobaccos?—A. Yes.

Q. And if one man has say 6 per cent lower and another man a 6 per cent higher price, then his average is going to be much higher than the other; and that is according to your own statement over the last three or four days, that is just what happens. That, of course, could be carried out with meticulous detail by going into his books. I do not think there is any need for that. I should think it would be admitted at once.

By Mr. Sommerville:

Q. At any rate, the situation of the grower in 1932 was about 50 per cent worse than it was in 1930, wasn't it?—A. Yes, sir.

Q. He was 50 per cent worse off in 1932 than he was in 1930?—A. One of the reasons was because he raised so much tobacco.

Q. And one of the reasons was because you reduced by 50 per cent and just added—?—A. Because of over production for one thing.

Q. And that just added to his depression.

By the Chairman:

Q. Why do you say, Mr. Miller, and why do you persist in saying over-production, when every pound of the 1932 production was liquidated?—A. We believe Mr. Stevens, that there was still 25,000,000 pounds more of flue-cured tobacco on hand here than was needed or wanted by the manufacturers.

Q. Now, wait a moment; that includes the 1932 crop?—A. Yes, sir.

Q. And it is still questionable, because you have admitted that you use the tobacco taken in one year about two or three years later in your manufacturing?—A. About 18 months after.

Q. You gave us that, from two to three years. So you do not take into consideration the 1932 crop with any surplus that you may have had over from the 1931 and 1932. The problem that arises regarding over-production is a present-day problem which can be frankly faced, but it does not justify your reduction in 1931 and in 1932 of the price, because then the condition that you now mention did not obtain?—A. Mr. Chairman, we have got on hand as on March 31st, 24,000,000 pounds of flue-cured tobacco.

Q. Wait a minute, March 31, 1934?—A. Yes, sir.

Q. After taking the crops of 1932 and 1933; but it was in 1931 that you made the big reduction in price. Can't you get that point, Mr. Miller?—A. Well, certainly; on reduced acreage, Mr. Chairman. Our inventories of 1931 were nothing comparable to what they are to-day.

By Mr. Sommerville:

Q. Mr. Millar, in 1931 before you had the big crop you deliberately reduced the price from a top of 40 cents to a top of 30 cents, which was a 25 per cent cut at once, and got down to a price that was away below anything that had ever been paid before; that was before there was ever a big crop.

Mr. Ilsley: There was 24,000,000 pounds in 1931 which was just as big a crop as in 1933.

The Witness: 1931 was a big crop, twice as much as it was in 1930.

By Mr. Sommerville:

Q. But you paid 22 cents?—A. That is, when the price went down there was twice as much raised.

Q. You paid 30 odd cents?—A. It was not 30.

Q. No, I beg your pardon, 22 cents.—A. That is when the price went down twice as much—

Q. Now then, in addition to reducing the price to the producer, which we have heard, you reduced wages to the employees?—A. We have not yet got our figures on that. There have not been any real wage reductions in our factories.

Q. You said at least two per cent?—A. That happened this year, last fall.

Q. Can you tell me Mr. Miller, with all these accumulating profits made on tobacco that gives you a great deal more than the tobacco you are using this year, because you are using this year what you bought in 1932, with all those accumulating profits, what has your great company done to relieve or assist this country through the present depression,—one single thing?—A. Well, we feel that we have done all we possibly could to warn the farmers against overproduction. It is a matter of record what we have advised them, not only through the newspapers but by circular letters through the Department of Agriculture at both Ottawa and Toronto. We have done everything we possibly could to see that they did not overproduce tobacco. If we wanted to put through low prices would we be trying to make them reduce their acreage and reduce their planting? The logical thing would be to let them plant what they wanted this year. We went into this market up there this year and paid everybody practically 20 cents a pound when we really did not need the tobacco, to try and help the situation. We have done everything we have known how to do.

By Mr. Factor:

Q. You originally encouraged the producer to increase his acreage?—A. To a reasonable extent sir, only a reasonable extent—slowly.

By Mr. Sommerville:

Q. When in 1931 he increased his acreage, you went out and bought from the new man?—A. Well, that statement is made. We were not aware of anything. We have discussed—

Q. When you were asked that question yesterday, Mr. Buell said they bought where they could get good tobacco?—A. We did not discriminate against the new raiser, no.

Q. We know that you did not discriminate. That is one way of putting it. You encouraged— —A. Fair way.

Mr. YOUNG: Why should he discriminate against the new grower?

By Mr. Sommerville:

Q. If you were discouraging the increase of acreage among the old growers, was it an inducement to the old growers to reduce their acreage when they found you going out and buying from the new growers who came into the field? —A. Mr. Sommerville, I ask you if we had wanted to try to force the price down and grind the farmer down, would we have gone to all the effort we have gone to, to try to get enforced this year a plan for the reduction of acreage by 25 per cent? Would we have advised it, when in our opinion it should be $33\frac{1}{3}$ per cent, would we have tried to do that, if we had wanted to grind the farmer down to a low price for his tobacco. That does not seem reasonable to me.

By the Chairman:

Q. Mr. Miller, the fact is you did unduly reduce the price and the farmers are suffering, because the farmer is suffering, other business concerns, fertilizer companies and machinery companies are not being paid. Why? Because the reduction in the price of tobacco in 1931 and 1932 was such that the farmer could not pay the cost of production?—A. Well,—

Q. Here is a thing that puzzles me. In the face of what Mr. Sommerville has read out here this morning, and pointed out to you in the way of the highly prosperous condition of your company—nobody is complaining particularly about that, if the other people are getting a fair share—in the face of the highly prosperous condition of your company the reduction in price to the consumer amounted to only $3.50 in 1932?—A. The cigarettes?

Q. On the cigarettes?—A. Look at tobacco.

Q. It is very small.—A. Cigarette tobacco business is a very important thing in the business.

Q. That is a very small reduction?—A. I think you are wrong.

Q. This is your own brief?—A. Look at the next page. What page are you looking at?

Q. Page 45. I am saying you only made a very small reduction, because $2 came off in the excise tax.—A. No, that is not the last case. Look at the page, sir.

Mr. FACTOR: I cannot appreciate the mentioning of those percentages when you take an ordinary package of cigarettes.

Mr. LANE: That is an error.

By Mr. Factor:

Q. Take an ordinary package of standard cigarettes, the 20 cent package, what was the retail price to the consumer, starting from the year 1930. What would the consumer have to pay for a 20 cent package of cigarettes in 1930?—A. He paid 25 cents for that package.

Q. That was due to the high excise?—A. For the big brands.

Q. With the high excise tax?—A. Yes.

Q. What did he pay in 1931 for the same package?—A. I forget. 1931, you say?

Q. Yes.—A. You had still a high excise, a package of 20 for 25 cents.

Q. What was the price that the consumer paid in 1932?—A. The excise tax was dropped from $6 a thousand, to $4 a thousand, $2 a thousand reduction there, and the price to the consumer was changed from 12½ cents—12½ a thousand, from 20 cigarettes for 25 cents, to 20 cigarettes for 20 cents, or ten a thousand, a reduction of 2½ to the consumer.

Q. Because the excise tax was reduced?—A. Primarily that.

Q. What was the price paid by the consumer in 1933?—A. It was 20 for 20.

Q. What did you pass on to the consumer in that package?—A. I am dealing with one brand. You were asking me to make a comparison. That is one brand, but other brands have been reduced. So far as we are concerned. the records there on that page show that we have reduced our price from 1930 to 1933 from $3.82 less excise sales tax to $3.46.

Q. To the jobber?—A. What we get.

Q. What I am trying to find out is, where did the consumer get a reduced price on the price of cigarettes? You have reduced the price to the grower. but the consumer has been paying the same price for his cigarettes from time immemorial, has he not?—A. No.

Q. Say from 1930. The consumer has been paying the same price for his cigarettes with the exception of the time when you increased the package from 20 to 25, and that was on account of the decrease in the excise tax?—A. Primarily, to the manufacturer, but there was more than that passed on.

Q. It would not be very much more, would it?—A. It would be more.

Q. How did you pass on to the consumer the lower price that you paid to the grower?—A. Well, it is all—for one thing, it is in the good tobacco.

Q. Well,—A. You have got a unit there of 20 cigarettes. You cannot change the price to 19½ cents or 18 cents.

Q. That is the unfortunate part?—A. Yes; it is taken care of.

Q. There has been no reduction to the consumer in that package of cigarettes?—A. There has been a reduction, and the jobbers have gotten more out of it.

Mr. SOMMERVILLE: You are retailer and jobber. Let us get this clear. You control the jobber in a number of the large centres in Canada.

The WITNESS: Less than 4 per cent of the whole business in Canada is the amount we control.

By Mr. Factor:

Q. As a matter of fact, you also control the selling price of the cigarette, do you not?—A. Yes, we try to encourage the maintenance of prices.

Q. I am not quarrelling with you on that, but you do control it?—A. We try to.

By Mr. Ilsley:

Q. On this question of cigarettes, I have tried several times to find out whether you did reduce the price on any brands? I understood first that you did not, then later on, you said on some brands you did, and now I understand that the price to the consumer was not reduced on any brand of cigarettes; is that true or not?—A. When do you mean?

Mr. EDWARDS: They were reduced from 30 to 25?

Mr. ILSLEY: That has reference to the excise tax. I thought everybody understood we were not talking about that. I am talking about whether this company reduced its price; apart from the excise tax reduction did this company reduce its price to the consumer?

The WITNESS: No, not during that time; it was not practical to do it.

By Mr. Ilsley:

Q. We can get that definitely?—A. Not on cigarettes, but it was on good tobacco.

Q. Then the reduction in price to the producer was not passed on in such a way that the consumer of cigarettes got any of the benefit at all?—A. There were some brands reduced in price during that time.

Q. What were they?—A. Sweet Caporal. I was just reminded of that, sir. There was quite a drop there.

Mr. SOMMERVILLE: Perhaps you would be good enough to tell us.

The WITNESS: Broadly speaking—

Mr. FACTOR: What was the price of Sweet Caporal in 1930?

The CHAIRMAN: Mr. Miller, need it be a difficult thing to say? Has there been a reduction in the price of the common brand of cigarettes? Good gracious., you have about a dozen men, and surely you can tell us that. It is pathetic, really.

The WITNESS: What is the question?

The CHAIRMAN: The question is, what has been the reduction in the price of Sweet Caporal cigarettes to the consumer? Good gracious, it is a simple thing to give us that.

The WITNESS: The same price as Players.

Mr. FACTOR: Do you mean to tell me you do not know the price?

The CHAIRMAN: A dozen men in the audience can tell you.

By Mr. Factor:

Q. Do you mean to tell me you do not know the price to the consumer?—A. Now?

Q. No, in 1930?—A. It was not a very big seller.

Q. You started to give us Sweet Caporal as an illustration of the reduction in price to the consumer; let us have it. What was the price in 1930?—A. We tried to get it for you, but it was certainly more than 20 for 25, and it now sells 20 for 25. There was certainly that much of a reduction, and I think it was really more than that.

Q. It seems very strange to me that the President of the Imperial Tobacco Company, assisted by half a dozen men here, cannot tell me what the price of Sweet Caporal was to the consumer in 1930?

By Mr. Ilsley:

Q. Mr. Miller, I do not want to add to all this questioning needlessly, but at the end of your evidence of last Friday, you gave evidence which I thought was very definite, and which seems to have been changed later. Mr. Sommerville asked you these questions:—

> Q. Now, I want to ask you this further question: When the price to the producer was reduced from an average of 32 cents in the year 1930 to an average of 16 or 17 cents in the year 1932, how much did you reduce the price of cigarettes to the consumer?—A. The price of cigarettes to the consumer?
>
> The CHAIRMAN: Take some typical brand.
>
> *By Mr. Sommerville:*
>
> Q. Give me a typical brand, Turrets, for instance?—A. Page 48?
>
> Q. That deals with the whole produce?—A. Well, so far as any reduction in cigarettes is concerned, that is, in Turretts itself?

Q. Yes.—A. Well, there has been no decrease in price because of any change in the price of tobacco, but there are a lot of governing factors in the situation.

Q. And does that also apply generally to the various brands of cigarettes, that same answer?—A. You mean throughout Canada?

Q. Yes.—A. Yes, sir.

Q. Then, the price paid for tobacco, if it is not passed on to the consumer, reflects itself in a higher profit to the manufacturer?—A. Of necessity, yes.

Mr. SOMMERVILLE: I will leave it at that point.

Now, I thought that concluded it, but since you seem to keep on talking as if some brands were reduced to the consumer. Now, if they were, what were they and how much?—A. With respect to Sweet Caporal, I put it this way: I am trying to clear up the whole situation. What I said with regard to Turrets at the time, the price to the consumer, because of the change in price of tobacco during 1930 or 1931, was not changed. The price to the consumer was not changed. The change in price of Turrets to the consumer was due to the excise tax change.

Mr. SOMMERVILLE: That confirms the evidence of Friday last?

The WITNESS: The statement we referred to on page 45 or 47, was for all the brands. We had a lot of brands at varying prices.

By Mr. Factor:

Q. Another situation— —A. Wait a minute, Mr. Factor, I am trying to clear that up, sir. Sweet Caporal cigarettes were not selling to any large extent, and they were selling at a higher price. I am sorry I cannot state at the moment what price. They were a very small brand, and they were being sold at a higher price, and we reduced the price to 20 for 20 cents, and 25 for 25 cents. Now, that reduction in price reflects in our average price, the same way. We have reduced the price to the consumer irrespective of the reduction in excise tax on our Millbank cigarettes, and several other brands, which affects the average price that we get for them, and the average price that, of course, the consumer gets. The consumers' price has been reduced too.

By the Chairman:

Q. Are you talking of the wholesale price, or the price that I pay for a package of cigarettes?—A. When I say "Consumers' price" I mean the price you have to pay, Mr. Chairman, for them.

Q. Is not this a fact, in 1930, you paid 25 cents for 20 cigarettes?

Mr. LANE: No.

The CHAIRMAN: That is what it was.

The WITNESS: 35 cents, I think it was, for Sweet Caporal.

The CHAIRMAN: To-day it is what?

The WITNESS: 20 for 20 cents, or 25 for 25 cents.

Mr. SOMMERVILLE: That is because of competition with other brands.

The CHAIRMAN: What are your chief sellers, Mr. Lane?

Mr. LANE: Mr. Stevens, Mr. Miller has said there has been no change in the price to the consumer. There has been a change in the swing of our trade from one brand to another.

The CHAIRMAN: Never mind that. What are the brands. Give us half a dozen.

The WITNESS: Turret. There is no change. On Sweet Caporal—

Mr. LANE: There is a change on Sweet Caporal.

The WITNESS: Winchester, no change.

The CHAIRMAN: What is another?

The WITNESS: Guinea Gold, no change.

The CHAIRMAN: Players?

The WITNESS: Players.

Mr. LANE: There is a change.

The CHAIRMAN: How much?

Mr. LANE: From 35 cents for 20 to 20 for 25 cents.

The CHAIRMAN: That is due to excise.

Mr. LANE: That is more than the excise.

The WITNESS: 18 for 25.

By Mr. Factor:

Q. May I suggest that Mr. Miller file with the committee a statement on each brand, and the comparative prices from 1929 to 1934.

Mr. LANE: I suggest you limit that to half a dozen prominent brands.

Mr. SOMMERVILLE: Make it ten leading sellers.

By Mr. Factor:

Q. What about the price of cigars? Did you get the information on the cigar situation for me?—A. No, sir; I have not been able to get it yet.

Mr. SOMMERVILLE: Have you any of the information asked for yesterday available?

The WITNESS: Not yesterday; but I have a statement here to file on our stocks of leaf tobacco by years, and by grades.

Mr. SOMMERVILLE: That will be exhibit No. 134.

Statement of stocks of leaf tobacco by years and grades filed and marked exhibit No. 134.

By Mr. Young:

Q. According to the evidence, you have 24,000,000 pounds of tobacco on hand?—A. Yes.

Q. You say that is more than your normal requirements?—A. Yes.

Q. How much more?—A. That is probably thirty-six months' duration. Three years' duration, based on what we have been using up, sir.

Q. If you had not to-day more than your requirements, what would you have on hand now?—A. Probably, I think—it would be hard to say—two and one-half years would be about four to five million pounds.

Q. You have four or five million pounds more than your normal requirements?—A. Yes.

Q. Why did you buy that additional tobacco?—A. Because of the general conditions, and we thought it was good tobacco, and to help the general situation with the farmers and to save any—

The CHAIRMAN: It is good stuff to hold, anyway.

The WITNESS: —to save any break in the market. We hope so, sir.

The CHAIRMAN: It improves with age?

The WITNESS: To a certain degree.

The CHAIRMAN: It is like whiskey in that respect.

By Mr. Senn:

Q. May I ask a question before it gets too far on. I am interested in this matter of overproduction, and the scheme that is on foot to reduce production. In estimating the amount of acreage that should be reduced, you said it should be 33⅓ per cent?—A. Yes.

Q. Instead of 25?—A. Yes.

Q. In making that estimate, have you taken into full account the prospect of the export trade?—A. Yes, in our opinion—our opinion of it.

Q. Can you tell us why there is no immediate prospect of an increase, a real increase, in the export trade, having regard to our Empire preference?—A. Well, we have been doing our best to interest one of the biggest British manufacturers in using Canadian flue-cured tobacco. We met with reasonable success for a time, but at the moment we understand that the brands that they were using have fallen off in sales so materially that they themselves are overstocked at the present time, with that type of tobacco. Of course, that does not mean that there are not other people who can and will use Canadian flue-cured tobacco.

Q. Is it not true that our Canadian flue-cured tobacco compares very favourably in quality with what is being purchased from the United States? —A. Well, compares favourably, yes, but it is not the same.

By Mr. Sommerville:

Q. I thought I had a statement by Mr. Cooper, Mr. Cooper is one of your directors, is he not?—A. Yes.

Q. And what is his position with the British American?—A. One of the directors.

Q. What is his position in the Imperial of Great Britain?—A. No connection at all.

Q. Perhaps I may have that this afternoon, his statement when he was here last year as to the position. That would clear up the situation on that?—A. All right.

By Mr. Young:

Q. Going back to the other point, you have on hand four or five million pounds more of flue-cured tobacco than you need?—A. Yes.

Q. I think you said a little earlier that in Canada there was 25,000,000 pounds more than required?—A. In the world. That is including the United States and here to.

Q. How much is there in Canada?—A. We figure that there is about 10,000,000 pounds—that is our estimate, our rough figures—in Ontario, which is being held by the Ontario government.

Q. In addition to what you are holding?—A. Yes.

By Mr. Sommerville:

Q. Of the 1933 crop?—A. The Ontario government, out of the 1933 crop, advanced money, as we understand it. Then also I believe the Canadian Leaf Tobacco Company have advanced them money in processing their tobacco; and what with these overstocks in the Imperial Tobacco Company of Great Britain—we are, of course, estimating that, but we feel reasonably sure that there is somewhere between twenty and twenty-five million pounds in sight that is more than is really necessary, already.

By Mr. Young:

Q. That is in the world?—A. Yes.

Q. I mean in Canada?—A. Well, here in Canada—

The CHAIRMAN: What is the total world's consumption?

Mr. YOUNG: Let me get an answer to my question, please, Mr. Chairman.

The WITNESS: I am sorry. What is the question?

By Mr. Young:

Q. I want to know what the over-supply is in Canada at the present time?——A. Well, it is an estimate, of course, but taking into account our position and what we believe is the position of the Ontario government, we believe that it is somewhere about fifteen to eighteen million pounds in Canada.

Q. In Canada?—A. Yes.

Q. For which there is no immediate demand?—A. To our knowledge there is no demand.

Q. That that is held by the government is in the hands of farmers, guaranteed by the government; is that it?—A. No. Two-co-operative societies hold it. As I understand it, it has been money advanced by banks to be paid to the farmers and guaranteed by the Ontario government. That is as we understand it.

Q. Have the farmers sold it or just taken an advance on it?—A. Taken an advance on it.

Q. It is still in their hands?—A. Yes, it is still in their title—they have title to it.

Q. Have other Canadian manufacturers got any?—A. I don't know what their position is.

By the Chairman:

Q. Before you leave that, I think it would be most unfortunate to allow a damaging impression to go abroad regarding the position. You say, in your opinion, there are about 24,000,000 pounds over-supply of tobacco in the world?—A. Yes, of flue-cured Canadian tobacco.

Q. What is the total production each year, or we will say, what is the total importation of importing countries each year of flue-cured tobacco?

Mr. SOMMERVILLE: Great Britain takes 197,000,000 pounds.

The WITNESS: You mean Canada?

By the Chairman:

Q. No, I mean of the total, Virginia and so on?—A. I don't know what the total is.

Mr. SOMMERVILLE: We had the figure.

The CHAIRMAN: You have a pretty good idea. I have a very good idea myself. I think it is 170,000,000 pounds or something like that they import from the United States.

Mr. SOMMERVILLE: Great Britain alone imports 197,000,000 pounds from the United States.

The CHAIRMAN: Mr. Buell gets about $85,000 a years to follow these things. What is it, Mr. Buell?

Mr. BUELL: I don't know.

The CHAIRMAN: You don't know. It is most pitiful.

By the Chairman:

Q. Before you leave that, won't you agree, Mr. Miller, that the weight of this alleged excess is not much compared with the annual consumption of importing countries, or Great Britain alone—take Great Britain alone?—A. Well, Mr. Stevens, yes, if you want to include American tobacco and flue-cured tobacco; 24,000,000 pounds is a comparatively small amount of the world crop of flue-cured; but they are not comparable, in our opinion.

By Mr. Sommerville:

Q. But, Mr. Miller, you to-day are using 60 per cent more of this Canadian Virginia leaf?—A. Yes.

Q. And replacing the American Virginia leaf to that extent?—A. Yes, something like that.

Mr. MONTGOMERY: Be fair in your questions.

Mr. SOMMERVILLE: I want to be fair, and I will be fair.

By Mr. Sommerville:

Q. But, Mr. Miller, you are using 65 per cent more of this Canadian leaf than you were using some few years ago?—A. I don't know.

Q. There is a steady increase in the amount?—A. We may be, sir.

Q. Is that not an indication that you, or at least the Imperial Tobacco Company of Canada, have found it suitable for their trade in Canada? You have, have you not?—A. Well, yes, sir.

Q. And Great Britain, which started only three or four years ago to use it, imported large quantities up to this year?—A. Yes, sir.

Q. Increasing quantities?—A. For a time, yes.

Q. And of the Virginia leaf, we have the evidence here the other day that they are importing as much as 197,000,000 pounds?—A. Yes.

Q. 24,000,000 pounds surplus, if it does exist in the world, is not a large surplus in view of even the consumptive power of Great Britain alone?—A. Do you want me to answer?

Q. Well, is that not self-apparent?—A. They are not using Canadian leaf. I think you are putting a wrong construction on the whole thing, Mr. Sommerville. Look, in England they have got a high protective duty on tobacco, around 8 shillings and two pence a pound. They have given a preferential to empire-grown flue-cured, or empire-grown tobacco.

Q. To the extent of 49 cents a pound?—A. Yes. That ought to try to encourage manufacturers in using them, but up to now it has not produced any very considerable result in increased usings of Canadian flue-cured tobacco.

Q. Well, we have the figures at any rate. They speak for themselves in that respect, Mr. Miller?—A. Yes. Just a minute, Mr. Sommerville. I would like to mention that in 1931 the total production of tobacco was 51,300,000 pounds.

By the Chairman:

Q. In Canada?—A. Green weight, in Canada, all kinds; and the consumption in Canada was 23,864,000, including exports.

Q. That is the consumption of Canadian flue-cured?—A. Yes, all tobacco, all Canadian leaf.

By Mr. Sommerville:

Q. Don't get confused with Burley, cigar leaf, heavy tobacco and that sort of thing. We are talking about flue-cured?—A. We have no statistics separately about flue-cured, as compared with the other. In order to get any fair picture of that, I think you have got to take the whole thing, and it is common knowledge that the priming—assuming that there is an over-production, which we believe there is, it is not particularly in the Burley, it is in the flue-cured tobacco.

Q. With respect to your figures of 24,000,000 pounds, which you have mentioned, that is 24,000,000 pounds of surplus of all tobaccos?—A. No, it is Canadian flue-cured, Canadian tobacco.

Mr. YOUNG: 24,000,000 pounds in your factories?

The WITNESS: You mean what we have got is 24,000,000?

By Mr. Sommerville:

Q. No, you were giving us the surplus which you said existed, of 24,000,000 pounds?—A. That is flue-cured.

Mr. YOUNG: No, 24,000,000 pounds was in your own factory.

Mr. SOMMERVILLE: They have that. He says there is a surplus of 24,000,000 pounds in the world.

The WITNESS: 20,000,000 to 25,000,000, that is flue-cured.

By Mr. Sommerville:

Q. Flue-cured?—A. In 1932, there were 54,000,000 pounds produced, and there is 27,000,000 used.

Q. Of all tobacco?—A. No—yes, all Canadian tobacco; and in 1933 there was a production of 39,400,000 pounds and the use was 31,000,000.

By Mr. Senn:

Q. Mr. Miller, let me ask a question just to clarify this 24,000,000 pounds of surplus; is that a world surplus or a surplus in Canadian tobacco?—A. Canadian tobacco. That is all we are talking about. Canadian flue-cured tobacco.

Q. Then it is not a world surplus; it is purely a Canadian surplus?—A. No, sir, it is a world surplus of Canadian tobacco, if you want to separate it, and we think it could be.

By Mr. Young:

Q. Might I ask another question in regard to the surplus of flue-cured tobacco in Canada. You have had four or five million pounds?—A. Yes.

Q. And through the Ontario government, other people are holding something like 10,000,000 pounds?—A. Yes.

Q. And altogether there is between fifteen and twenty million pounds?—A. Yes.

Q. What is to prevent the holders of this surplus from exporting it to the British market?—A. Nothing that I know of, except that the British market do not need it, and don't want it, in our opinion.

Q. If we want to sell it, maybe they will buy it anyway?—A. Maybe so.

Q. Why not sell it?—A. I don't know.

Q. These people are anxious to get rid of it; why not sell it?—A. We would be delighted for them to sell it, and hope they will. I don't know why they don't sell it.

Q. Is the price satisfactory?—A. I think the price is too high. We have said that all along. That is, in our opinion, one of the troubles.

Q. Is the price in Britain too high?—A. Yes, the price they are asking for it in Britain is too high.

Q. What about the price that Britain is offering for it?—A. I don't know that, sir, but I assume they must be offering lower prices. I don't know the prices.

Q. Could you get rid of your own surplus, this four or five million pounds on hand that you have, in Britain, and get your money out of it to-day?—A. I don't know, sir.

Mr. FACTOR: Don't worry about that; they don't need to.

By Mr. Edwards:

Q. You would have to give up orderly marketing, would you not?—A. At the present price we would probably have trouble in getting rid of it.

By Mr. Sommerville:

Q. About the question of surplus, as a matter of fact I see you have the flue-cured Canadian Virginia in your warehouses, some of it of 1925, some of it 1926?—A. No, for the year 1930, is it not?

Q. I am reading now.—A. It is 1930, March of 1930.

Q. Where do we get the present?—A. You turn over four or five pages there, next to the last one, March 31, 1934.

Q. March 31, 1934?—A. That is right.

Q. Then you got some of 1927, a small quantity, some 1929?—A. A very small quantity.

Q. And you have 1,904,018 pounds in 1930?—A. Yes.

Q. You have 4,749,705 of 1931?—A. Yes.

Q. You have 8,024,039 of 1932?—A. Yes.

Q. And you have 9,430,316 of 1933?—A. Yes. Those are redried weights.

Q. Of course they are redried, I understand that.

By Mr. Factor:

Q. The tobacco that you bought this year, the 1933 crop, is not used for eighteen months in actual manufacturing?—A. Approximately that.

Q. So that you have to keep it for eighteen months until it is used for manufacturing?—A. Approximately.

Mr. Sommerville: I think it is more than that, on the showing of 1931.

By Mr. Sommerville:

Q. Of tobacco bought in 1931, you have 4,749,000 pounds still on hand that is being used, as of March 31, 1934. That is what you have?—A. Yes.

Q. And of 1932, you have 8,000,000 pounds which is the bulk of your purchases of 1932?—A. Probably; I don't know.

Q. After deducting what you bought for the Imperial?—A. Probably.

Q. I got away from the question I was asking you by reason of the request made for certain information. I was asking you a very definite and plain question: With all this increasing accumulation of profits, what single thing have you done, as a company, to help this country in this depression; and the only answer you have given me so far is that you advised the farmers that they were producing too much tobacco. Now, is there anything else that you have done?

Mr. Factor: Personally, I really cannot understand the question. They are not a philanthropic institution. What do you mean by "help the country"?

Mr. Sommerville: I want to know if there is any phase of this in which either producer, wage-earner or anybody else has benefited?

The Witness: I say this, we have certainly maintained employment, and we believe we have had satisfied employees during the whole period, sir. I think we have stabilized the industry in the Imperial. We have not let a situation develop like it has in the United States, where the retailers are pretty well run out of business, through cut-price situations all through there. We feel that we have done our share, as a tobacco industry.

By Mr. Factor:

Q. Mr. Miller, look at this picture: You have accumulated a lot of profits, and you have drawn large salaries for your chief executives, on the one hand; and on the other hand you have decreased the price of tobacco to the grower, and I am informed—subject to your verification,—that you have also decreased wages?—A. We have also decreased prices to the consumer.

The Chairman: Very little.

By Mr. Factor:

Q. Yes, very little. You can't blame some people for feeling rather restless about a situation of that kind, can you?—A. Is that a fair question, sir?

Q. I think it is fair, Mr. Miller, when you consider the picture from both angles. We are not objecting to your accumulating large profits if you paid a decent price for your product to the grower, and paid decent wages?—A. I might say this: we have been criticized for all sorts of things; we have been criticized for failing to open the market, we have been criticized for opening the market, we have been criticized for the prices we have paid, we have been criticized for the prices we did not pay; where we have tried to do the best we could. Now, we have advised them against over production, quite irrespective of what you gentlemen may think, our opinion is that that is the crying trouble, particularly where there has been no governmental agency to help us try to do that. This year the Ontario government, as you gentlemen probably know, has stepped into the situation and without that we would not have got a 25 per cent reduction in this year's crop. Now, any time that there can be any agreement insofar as opening the market is concerned—we are willing not to open the market, we are willing to follow the lead in anything, and let someone else open the market. We do not think that is a practical proposition, I am not putting it out that way.

The CHAIRMAN: Mr. Miller, now just be reasonable on that; the only reason why the others stay out of the market is because you are the big buyers and they cannot compete with you.

The WITNESS: I am not making that as a serious suggestion; because, as a practical proposition I suppose we have got to, but we are criticized for it.

The CHAIRMAN: No, no, excuse me; the only criticism was about the delay in the opening of the market.

The WITNESS: We have tried to explain that, Mr. Stevens.

The CHAIRMAN: But you have not explained it at all.

The WITNESS: I would like to say that if this Committee or any committee will set a price for the other manufacturers to pay for tobacco, we will fall in line with what they pay, and pay just as much as they pay. I do not know how anybody could expect us to go out to do any more than we have. We have tried our best to keep over production down; but you gentlemen do not seem to agree with that. Our brief explains what we have done, but in addition to that we have done everything else we could do through the department. Now, if they want to emphasize the setting of prices, any price if it is an agreed price among manufacturers—but we do not see why we should have to pay a fixed price or a price higher than the other manufacturers go in and buy tobacco, if they buy at a lower price, they can undersell and tear down the whole business.

The CHAIRMAN: I do not think there is any use in our arguing about this.

Mr. SOMMERVILLE: We do not want to have you feel that we are not going to deal with some of the other phases, there is the phase of your price maintenance and merchandising practices that Mr. Factor has raised, but I would like to call Mr. Buell, if you would not mind stepping to one side, and Mr. Lea.

Mr. ILSLEY: Mr. Miller complained the other day that we had not given him an opportunity to present his brief. I just want to say that I have read his brief, and I think perhaps all the members of the committee have as well.

The WITNESS: I am glad to hear that, sir.

Mr. SOMMERVILLE: I want to make it perfectly clear, Mr. Miller, that if there is any phase you desire to present, you may do so. The whole intention was that you should present it after certain questions had been asked that have been very pertinently raised by the evidence.

Mr. KENNEDY (*Winnipeg*): Is the brief not entered in the record?

Mr. SOMMERVILLE: No, it is filed.

Mr. KENNEDY (*Winnipeg*): I think it is only fair to file it as an exhibit.

Mr. SOMMERVILLE: It should be filed.

The WITNESS: All right, sir.

Mr. KENNEDY (*Winnipeg*): Reading it into the record is not accepting it as gospel truth, any more than any other.

The WITNESS: It is our position.

Mr. KENNEDY (*Winnipeg*): It is a carefully prepared statement, and I would suggest that it be read into the record.

The CHAIRMAN: I am not going to suggest that the committee sit here and listen to the reading of that brief.

Mr. SOMMERVILLE: I want to speak of this phase of it, however; certain statements are made in the brief with which my information does not agree, and upon which I want to examine.

Mr. YOUNG: Better read it in, and question as you go along.

Mr. SOMMERVILLE: And question it as you go along, so that you will understand what is the weakness of a statement that may be made.

Mr. ILSLEY: It seems to me that the important part of a brief is on page 29, where Mr. Miller gives the reasons as to why the Imperial Tobacco Company of Canada reduced the price if they did in 1931, 1932; that is the important part of the brief. Now, he has been cross-examined with a fair degree of thoroughness about his action in that respect; and if (speaking for myself) he wanted to elaborate the reasons he gives on that page now, I would be interested in hearing him do so. That is what is complained of, essentially.

The CHAIRMAN: I hope we are not going to go back over all these three or four days' discussion. We have gone on, and on; and Mr. Miller has given us his answer, he does not seem to have any further answer to make. I think it is about time we were proceeding to some other phase of the inquiry.

Mr. FACTOR: I think Mr. Miller has some statement he wanted to make.

Mr. KENNEDY (*Winnipeg*): Mr. Chairman, we have had put in all sorts of exhibits—advertisements and other things—without reading this whole brief; why not have it filed as an exhibit.

The CHAIRMAN: Certainly, there is no question about that.

Mr. KENNEDY (*Winnipeg*): I really thought it was filed.

Mr. FACTOR: As far as I am concerned I am quite willing to have this brief read right into the record. It is just the same as the brief presented by the other phases of the inquiry. It does not necessarily mean that because it is read into the record, that every word of it has to be taken.

The CHAIRMAN: Let us settle the question: what do you wish to do.

Mr. FACTOR: I move that the brief be read into the record.

The CHAIRMAN: You mean, included and printed in the record.

Mr. FACTOR: Printed in the record.

On being put the motion was carried.

The CHAIRMAN: It is so ordered.

BRIEF SUBMITTED BY MR. G. MILLER, PRESIDENT OF THE IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

Mr. Chairman and Gentlemen:

The Imperial Tobacco Company of Canada, Limited, in common with the other representative interests who have already so expressed themselves, wishes to commend the efforts of the Chairman and members of this Committee in their endeavours to bring about some definite improvement in the methods and results of the marketing of their products which will contribute to the ultimate advantage and satisfaction of everyone concerned.

I hope and trust that our submissions on behalf of the manufacturing phase of the tobacco industry, coupled with our very definite efforts during the past week to bring about a satisfactory working agreement between the growers and manufacturers, may at least afford some convincing evidence of our genuine desire to contribute to the success of the efforts of this Committee, and to the establishment of a truer understanding of the various phases of this particular industry.

In order tc proceed in some logical order of sequence and in the belief that this submission will effectively clear up at least the greater number of points which present any difficulty in understanding, I would ask the indulgence of the Committee in being permitted the privilege of proceeding without distracting interruptions.

I should like to present the first part myself, following which Mr. Lane will present the second part dealing with certain phases of the evidence submitted at the previous hearings, and then I will deal with the various points outlined by Mr. Factor, at the conclusion of which we shall be glad to answer any questions which may still require any further explanation or clarification.

Before getting into details may I state in the premises that I believe it is not a misstatement of fact to say that the financial stability of Canada is one of our most precious possessions.

That there is a vast amount of foreign capital invested in Canada.

That destruction of the confidence of foreign investors in Canadian enterprises will work incalculable harm to each and every citizen of Canada.

That there are more than sixteen thousand shareholders of the Company resident throughout the world, of which three thousand five hundred reside in Canada.

That the Company's stock is held by residents of the following countries:—

Country	Number of share-holders	Preference shares	Ordinary shares	Per cent of shares in each country
Argentina	1	....	120	·001
Australia	11	1,030	9,373	·094
Austria	1	....	282	·003
Bavaria	1	30	....	....
Belgium	12	180	1,439	·015
Bermuda	1	....	10	....
Brazil	1	....	66	·001
British West Indies	6	200	353	·005
Burma	2	600	1,050	·015
Canada	3,571	27,254	1,450,422	13·311
Ceylon	1	260	....	·002
Chili	2	....	156	·001
China	15	125	5,005	·046
Denmark	2	400	25	·004
Egypt	5	....	1,465	·013
Falkland Islands	1	....	90	·001
Federated Malay States	3	....	372	·003
France	44	9,385	9,059	·166
Gibraltar	1	....	900	·008
Great Britain	12,319	1,600,914	7,768,323	84·400
Greece	1	110	....	·001
Holland	4	....	1,400	·013
India	23	1,476	3,695	·047
Italy	10	1,235	3,439	·042
Japan	1	....	180	·001
Kenya Colony (B.E.A.)	1	50	....	....
Malay Peninsula	1	....	90	·001
Malta	1	....	2,200	·020
Manchuria	1	250	....	·002
Mexico	2	100	10	·001
Newfoundland	25	....	5,802	·052
New Zealand	6	250	1,016	·011
Norway	3	....	944	·009
Nyasaland, Africa	1	....	240	·002
Palestine	3	....	335	·003
Portugal	4	4–6	350	·008
St. Pierre and Miquelon	5	....	252	·002
Serbia	1	....	200	·002
South Africa	9	900	5,714	·060
Spain	4	175	3,500	·033
Switzerland	27	2,300	9,830	·109
Tanganyika, East Africa	2	....	1,320	·012
Turkey	1	....	180	·001
Turkey in Asia	1	....	250	·002
U.S.A.	187	2,290	160,975	1·471
Venezuela	1	....	600	·006
	16,325	1,650,000	9,451,032	....

I respectfully suggest that the success of Imperial Tobacco Company of Canada, Limited, during the past few years of stress has contributed to some modest degree to the confidence of residents and non-residents in the financial stability of Canada as a whole.

While we are willing and prepared to assist this Committee in every way possible, we however respectfully suggest that the Committee be kind enough to permit us to preserve a degree of privacy in relation to those confidential details of our business which may have no bearing on the principles at issue, and a disclosure of which could serve no purpose.

Production

In order that you may have before you statistics on production I submit herewith "Table 1," which is a record of production of tobacco in Canada for the crop years 1924 to 1933 inclusive:

TABLE 1.—COMMERCIAL TOBACCO PRODUCTION IN CANADA SHOWING ONTARIO SPECIFICALLY AND BY TYPES

Year (calendar)	Produced in Ontario		All other provinces (chiefly Quebec)		Total Canada
	Bright Flue-cured	All other (chiefly Burley	Total Ontario	All grades	
	000 lb.	000 lb.	000 lb.	000 lb.	000 lb.
1924	5,479	6,656	12,135	6,576	18,711
1925	6,268	14,355	20,623	8,643	29,266
1926	4,331	17,733	20,064	8,760	28,824
1927	6,230	29,392	35,622	8,295	43,917
1928	8,718	24,548	33,266	8,690	41,956
1929	10,500	10,919	21,419	8,467	29,886
1930	12,384	16,233	28,617	8,100	36,717
1931	24,500	20,270	44,770	6,530	51,300
1932	27,615	18,145	45,760	8,334	54,094
1933	22,484	10,512	32,996	6,404	39,400

Sources—
1924—Report of the Tobacco Inquiry Commission, 1923.
192-6-7—U.S. Dept. of Agriculture; Foreign News on Tobacco (Quating Canadian Statistics),
1928, 1930, 1932—Dept. of Trade and Comm. Canadian Tobacco Production (1928 Prelim.), 1930. 1931, 1932).
1929—Report of Tobacco Division—Officer in Charge—1927-8-9.
1933—Dept. of Trade and Comm. Canadian Tobacco Production, 1933.

I particularly direct your attention to the production of flue-cured tobacco as set out in the foregoing "Table 1," showing nine million pounds in 1928, ten million in 1929, twelve million in 1930, twenty-four million in 1931 and twenty-seven million in 1932; and while the production figures for the year 1933 used in the above Table are those of the Department of Trade and Commerce, it is, however, the Imperial Tobacco Company's opinion that there were 25,682,800 pounds of flue-cured tobacco produced in 1933.

The above figures represent green weight tobacco, and for the purpose of comparing the same with exports or that used in manufacture they should be reduced by ten per cent to cover moisture shrinkage.

I next submit for your consideration a table of Foreign and Domestic Leaf used in manufacturing in Canada, and showing the percentage of Canadian leaf used to the whole. Usings referred to include cigarettes, cut and plug tobaccos, snuff and cigars.

TABLE 2.—CANADIAN AND FOREIGN LEAF USED IN MANUFACTURE IN CANADA WITH PER CENT OF CANADIAN USED

Year (Calendar)	Used in manufacture in Canada			
	Canadian	Foreign	Total	Per cent of Canadian
	000 lbs.	000 lbs.	000 lbs.	
1920	8,226	18,428	26,654	30·9
1921	9,962	18,055	28,017	35·6
1922	19,262	16,816	36,078	53·4
1923	15,260	15,235	30,495	50·0
1924*	16,779	14,976	31,755	52·8
1925	16,199	15,484	31,683	51·1
1926	19,315	17,309	36,624	52·7
1927	20,685	16,485	37,170	55·6
1928	22,067	17,510	39,577	55·8
1929	25,559	17,673	43,232	59·1
1930	20,337	17,302	37,639	54·0
1931	19,007	14,963	33,970	56·0
1932	21,038	12,740	33,778	62·0
1933	22,589	11,898	34,487	65·5

Sources—
Used in manufacture: Census of Industry, Tobacco Industry 1919-1932. Estimated by I.T. Co., 1933.
*NOTE.—Census of Industry 1924 states quantities of Canadian and foreign leaf used were not obtained for that year. Figures used here for 1924 are estimates based on the report of the Dept. of National Revenue 1923.

You will observe from "Table 2" the constant increase in usings of Canadian leaf tobacco up to the year 1929, and the constant decrease in the usings of foreign leaf tobacco, but I should, however, point out at this time that the figures disclosed in "Table 2" in no manner indicate an increase in demand for Canadian leaf in any way approaching the increase in production indicated in "Table 1."

I now submit as "Table 3" a summary of the exports of unmanufactured Canadian leaf tobacco showing the proportion of such exports shipped to the United Kingdom. Care should be had in dealing with the table of exports as they do not necessarily represent sales or deliveries for use:—

TABLE 3.—CANADIAN TOBACCO EXPORTED AND PER CENT EXPORTED TO THE UNITED KINGDOM

Fiscal year ending March 31	Exported	Per cent of total exports shipped to U.K.
	000 lbs.	
1921	200	80·0
1922	472	72·0
1923	1,100	80·0
1924	2,055	56·0
1925	3,531	63·0
1926	2,860	95·2
1927	6,331	99·6
1928	6,080	99·6
1929	6,584	94·9
1930	6,811	77·7
1931	6,051	79·7
1932	8,223	96·7
1933	14,748	99·1
1934	8,000	99·0

Sources —

Exported—Trade of Canada, 1926, 1929, 1932 (fiscal years) and March, 1933.
—Census of Industry, Tobacco Industry, 1925-6 and 1928-9.
1934 —Estimated by I.T. Co.

The particulars of exports as disclosed above likewise do not indicate any increase in demand to correspond with the increase in production, as set out in "Table 1" and whereas by far the larger proportion of our exports of unmanufactured leaf tobacco is shipped to the United Kingdom, I submit as "Table 4" a statement of clearances for home consumption in the United Kingdom of Empire leaf tobacco.

TABLE 4.—CLEARANCES FOR HOME CONSUMPTION IN THE UNITED KINGDOM OF EMPIRE TOBACCO SHOWING PRINCIPAL SOURCES, ALSO PERCENTAGE OF CANADIAN TO TOTAL EMPIRE AND PERCENTAGE OF EMPIRE TO TOTAL CLEARANCES.

Year (Calendar)	Canada		N. & S. Rhodesia	Nyasaland	British India	All other Empire	Total Empire	
	lbs.	Per cent of total Empire	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.	Per cent of total clearance
1920	69	1·5	39	2,090	1,298	1,351	4,757	3·2
1921	83	1·3	22	2,806	2,536	956	6,403	4·3
1922	298	3·5	153	3,798	3,251	912	8,412	5·8
1923	515	5·3	151	4,940	3,472	711	9,789	7·0
1924	980	8·2	312	6,164	3,619	130	11,905	8·4
1925	1,553	9·4	469	7,171	4,337	1,051	14,581	9·8
1926	2,863	14·4	1,133	7,739	7,168	943	19,846	13·1
1927	3,373	14·8	1,711	8,015	8,541	1,153	22,793	14·7
1928	3,781	14·2	4,115	8,403	9,230	1,699	26,628	16·6
1929	4,274	14·9	4,898	9,176	9,122	1,123	28,593	17·1
1930	4,329	14·5	5,577	9,669	9,066	1,171	29,812	17·3
1931	4,857	14·8	7,051	10,497	9,125	1,252	32,782	19·2
1932	6,720	18·2	8,852	10,915	9,380	1,103	36,970	21·7
1933	8,974	22·0	9,653	11,677	9,487	1,089	40,880	23·7

Sources—

1920–31.—*Frank Watson & Co. Report—Progress and Development of Empire Tobaccos, June 1932.

1932–33.—*Frank Watson & Co. Report.—Monthly Empire Tobacco Reports.

*Reports by Frank Watson & Co. are issued by kind permission of the Controller of H. M. Stationery Office and H.M. Customs and Excise.

It will be noted that the years 1932 and 1933 indicate an abnormal increase in the withdrawals for consumption of Canadian leaf tobacco and, while dealing with "Table 4", it should be noted that the Canadian leaf withdrawn for home consumption in the United Kingdom represents under normal conditions approximately 15 per cent of the Empire leaf tobacco withdrawn for home consumption.

From "Table 4" it would appear that at no time has Canadian leaf been used so extensively as that of Nyasaland or British India and that since 1928 the usings of Rhodesian tobacco have consistently exceeded the usings of Canadian leaf.

In order to summarize the foregoing tables in their relation of consumption to production, I propose to tabulate the domestic leaf used in Canadian manufacture in Canada and the withdrawals for home consumption in the United Kingdom of Canadian leaf tobacco, and whereas the greatest quantity of Canadian leaf was exported in the years 1931, 1932 and 1933 and whereas 97 per cent to 99 per cent was exported to Great Britain, I propose to disregard other exports in this calculation.

I therefore submit "Table 5", which is made up from the Tables previously submitted. In the first column I show the green weight of Canadian tobacco produced in Canada; in the second column the redried weight of the same; in the third the total Canadian and foreign leaf tobacco used in Canadian manufacture; in the fourth the total Canadian leaf tobacco used in Canadian manufacture, and in the fifth, the total Canadian leaf tobacco cleared for home consumption in the United Kingdom.

It should be observed at this point that there is an undetermined quantity of leaf tobacco sold for consumption in Canada which pays no Excise and of which there is no precise record. However, we estimate that such quantities of tobacco may amount to five million pounds redried weight per annum.

TABLE 5

Year	Green weight	Redried weight	Total Canadian and foreign leaf used in Canadian manufacture	Total Canadian leaf used in Canadian manufacture	Cleared for home consumption in the U.K.
	000 lbs.	000 lbs.	000 lbs.	000 lbs.	000 lbs.
1924	18,711	16,870	31,755	16,779	980
1925	29,266	26,339	31,683	16,199	1,553
1926	28,824	25,942	36,624	19,315	2,863
1927	43,917	39,525	37,170	20,685	3,373
1928	41,956	37,760	39,577	22,067	3,781
1929	29,886	26,897	43,232	25,559	4,274
1930	36,717	33,045	37,639	20,337	4,329
1931	51,300	46,170	33,970	19,007	4,857
1932	54,094	48,685	33,778	21,038	6,720
1933	39,400	35,460	34,487	22,589	8,974

Source —Tables 1, 2 and 4.

I particularly direct your attention to the 1931 and 1932 crops exceeding the total consumption in Canada of manufactured tobacco (both foreign and domestic) by 36 per cent and 44 per cent respectively, which clearly indicates that if no foreign leaf were permitted entry to Canada, domestic production would then exceed domestic manufacture by 36 per cent in 1931 and 44 per cent in 1932.

Adding to the sum of Canadian leaf used for manufacture in Canada and Canadian leaf withdrawn for home consumption in the United Kingdom, five million pounds to cover leaf sold in Canada free of excise, it will be noted that the production in the following four years is less than the consumption as above determined:—1924; 1926; 1929; 1933; whereas crops for the six years 1925, 1927, 1928, 1930, 1931 and 1932 are in excess of apparent consumption.

The crop for the year 1931 (forty-six million pounds redried weight) was some 60 per cent in excess of apparent domestic and foreign consumption, and the crop immediately following for the year 1932 (forty-eight million pounds redried weight) is 49 per cent in excess of apparent domestic and foreign consumption. These two crops produced thirty-three million pounds redried weight in excess of apparent consumption.

On reference to " Table 1 " it will be noted that flue-cured tobacco indicates the largest increases in production for the past five years, and that the average production of flue-cured tobacco for the five years 1924 to 1928 was six and one-quarter million pounds, while for the five years 1929 to 1933 the average was twenty-three and one-half million pounds.

In view of the foregoing I submit that the annual production of flue-cured tobacco in Canada has been conclusively proved, in the past few years, to be considerably in excess of domestic as well as foreign consumption; in brief, we are producing considerably more than is consumed.

PRICES

I next propose to deal with prices in relation to the crops produced, and for your information submit "Table 6" which indicates the price paid for flue-cured tobacco in Canada and the United States in the years 1927 to 1933 inclusive:—

TABLE 6.—DOMESTIC CROP PRICES—BRIGHT FLUE-CURED CANADA AND UNITED STATES

Year	Canada	U.S.A.
	cents per lb.	cents per lb.
1927	33·9	21·3−1·5=19·8
1928	31·0	17·3−1·5=15·8
1929	29·0	18·0−1·5=16·5
1930	32·0	11·9−1·5=10·4
1931	20·5	8·5−1·5= 7·0
1932	16·0	11·3−1·5= 9·8
1933	19·8	15·2−1·5=13·7

Sources—
Canada—Dept. of Trade and Commerce, Canadian Production, 1930 and 1932.
U.S.A.—Messrs. Thorpe & Ricks from Commissioner of Agriculture of various States.
1933—I. T. Company—price only.

By reason of the United States tobaccos being grades and tied it is necessary to reduce the above American prices by the cost of such operations in order that the prices may be comparable to those paid in Canada, and we suggest that a deduction from the United States prices of $1\frac{1}{2}$ cents per pound, while probably low, will be sufficient for the purposes of comparison.

A further deduction must be made from the prices paid to farmers in the United States of America to cover warehouse charges, all of which would approximate 70 cents per 100 pounds. It therefore follows that the comparable prices for 1933 in Canada and the United States of America would be—Canada 19·8 cents per pound, United States 13 cents per pound.

In view of the fact that Canadian flue-cured tobacco is being used in substitution for United States tobacco, the foregoing comparison of prices should be noted for the years 1927 to 1930, when production was less than domestic requirements, and which indicates the substitute being sold at a higher price than United States tobacco.

The prices of Canadian leaf for the years 1927 to 1930 ranged from 71 per cent to 208 per cent higher than United States tobacco. For the years 1931 to 1933 when Canada was producing more than domestic requirements, we again find that the price of the substitute considerably exceeded the price of the United States tobacco. In those years the price paid for Canadian leaf tobacco ranged from 44 per cent to 197 per cent greater than the prices paid for United States leaf tobacco.

The high prices paid for Canadian flue-cured tobacco in the year 1930 and prior thereto was due to the effect of a duty of 40 cents per pound on imported leaf tobacco at a time when domestic consumption exceeded production. The effect of this duty will be dealt with hereafter.

In 1931, 1932 and 1933 conditions were reversed and production so exceeded domestic consumption that, if left to the usual results that follow a supply in excess of demand, the price level would have been reduced to a figure comparable, or even considerably lower than world prices had there not been an intervention by the principal purchaser paying a price for domestic leaf some-

what in excess of comparable world prices. Consequently, by reason of this intervention the prices paid for the 1931, 1932 and 1933 crops were still higher than comparable world prices, and the production and marketing of flue-cured tobacco was saved from complete disorganization and collapse, which usually follows an attempt to market a commodity produced so greatly in excess of requirements such as the overproduced flue-cured tobacco in the years in question.

Whereas something in excess of 97 per cent of Canada's exports are shipped to Great Britain, I now submit "Table 7," being a summary of prices paid for Empire leaf tobacco imported into the United Kingdom in the years 1927 to 1932 inclusive. The figures for the year 1933 have not been received at this time.

TABLE 7.—PRICES (PENCE) OF EMPIRE LEAF IMPORTED INTO THE UNITED KINGDOM SHOWING ALSO TOTAL FOREIGN COUNTRIES TOTAL IMPORTATIONS

Stripped	1927	1928	1929	1930	1931	1932
Total Foreign Countries	21·2	20·8	20·4	17·9	14·0	15·1
S. Africa	17·8	17·9	18·3	15·4	6·0	14·9
N. Rhodesia	15·4	14·4	12·1	11·9	11·3	10·8
S. Rhodesia	20·4	19·6	16·1	13·8	12·3	12·7
Nyasaland	20·6	18·3	17·0	15·1	12·8	12·5
British India	10·9	9·8	9·1	8·4	8·0	8·4
Canada	25·2	21·7	19·8	14·8	14·4	12·0
Other British Countries	18·2	19·9	18·3	12·2	15·6	14·9
Total Empire	15·0	13·8	11·8	9·9	9·4	10·1
Total Stripped	20·0	19·0	18·9	15·8	12·9	13·0
Unstripped						
Total Foreign Countries	18·6	17·5	16·9	14·4	12·5	12·6
Cyprus	16·8	17·7	15·8	13·9	15·2	10·2
S. Africa	15·7	19·0	10·5	5·7	19·1	7·2
N. Rhodesia	15·2	14·5	11·6	11·8	12·7	12·8
S. Rhodesia	23·2	17·8	14·1	15·5	13·0	13·1
Nyasaland	18·4	15·5	15·2	14·2	13·8	12·9
British India	7·9	7·4	7·1	8·2	6·8	7·3
N. Borneo	45·8	46·1	42·3	42·9	30·1	31·4
Canada	21·4	17·4	16·4	17·0	18·1	17·5
Other British Countries	12·7	17·9	16·0	14·7	10·9	13·1
Total Empire	19·0	17·4	16·6	14·5	12·8	14·5
Total Unstripped	19·0	17·4	16·6	14·5	12·8	13·1
Total Imports—All Countries, All Leaf	19·3	17·9	17·2	14·8	12·9	13·1

Sources—

1923–26—Quantity and Value of Imports from "Trade of the U.K. 1927"—Vol. 11.
1927–31— " " " " 1931"—Vol. 11.
1932 — " " " " 1932"—Vol. 11.

In the above "Table 7" it will be noted (after excluding North Borneo), that in the period of six years referred to there are ninety quotations on Empire leaf tobacco stripped and unstripped imported into Great Britain, and of the total ninety quotations in only eleven instances has the price paid for Canadian leaf been equalled or exceeded by that of other Empire leaf (North Borneo is excepted as its leaf is cigar wrappers and binders and therefore is not comparable).

The use of Canadian flue-cured tobacco in Great Britain is, as in Canada, in substitution for other types of leaf, and while Canada enjoys, in common with all other Empire producers, a preference in duty over leaf from the United States of America, it is therefore in direct competition with other Empire grown leaf.

A reference to "Table 4" indicates that Canadian leaf tobacco in Great Britain is in serious competition with other Empire leaf, and a reference to "Table 7" clearly shows that Canada is not meeting other Empire leaf prices; and whereas it is extremely unlikely that Canada can obtain from Great Britain a preferential duty for its tobacco as against other Empire leaf, it therefore follows that Canadian leaf tobacco exported to Great Britain must meet other Empire leaf both as to quality and price if Canada intends to continue to export, and to increase exports of leaf tobacco to Great Britain.

Duty on Leaf

The rates of duty on foreign leaf tobacco imported into Canada were in effect as follows:—

Prior to April 10, 1908.. .. .. 10c. per pound
Increased April 10, 1908 to.. .. .. 28c. per pound
and increased May 1, 1918, and thereafter to.. 40c. per pound

I suggest that while the original duty on imported leaf tobacco may have been imposed for the purpose of providing a measure of protection to the cultivators of Canada, the subsequent increases of such duty have been measures entirely for revenue and not for protection; but quite regardless of whether the original imposition of the duty or the subsequent increases were for protection or for revenue, the result and effect of such duties on production is identically one and the same, so that any further discussion at this time as to the purpose of the duty is entirely superfluous by reason of the fact that we are dealing with its effect on production.

I submit that, as a general principle and one that is amply confirmed by the present case under consideration, where production is less than domestic requirements, a duty upon a comparable imported commodity then operates as a protection to domestic producers and may enhance the price of the domestic commodity to the producer, but such enhancement of price is contingent upon the relation of the duty to the value of the product.

When, however, production is in excess of domestic requirements and results in an exportable surplus, the duty on imports of a comparable commodity no longer operates as a protection to domestic production, and the price for domestic consumption of the domestic commodity is then reduced to the comparable value of the domestic commodity in the export market.

The foregoing principles are fully confirmed by the tables previously submitted, wherein it will be noted that the prices paid for the crop of 1930 and crops prior thereto, being productions of less than domestic requirements, were considerably higher than prices paid in subsequent years when production considerably exceeded domestic requirements. Furthermore, the duty on leaf tobacco imported into the United States (other than cigar wrappers) is 35 cents a pound, while the prices of leaf tobacco in the United States are considerably less than this figure, as clearly disclosed in "Table 6".

Again, it is our information that Cuba imposes a duty of $5 per pound on imported leaf tobacco, while the Cuban domestic crops sold at somewhere in the neighbourhood of 25 cents a pound.

I submit that any line of endeavour which produces an extraordinary profit, as such is inviting trouble and is subject to the danger of exploitation and over-production with resulting disappointment and possible losses to those who have attempted to exploit such a commodity.

As Canadian flue-cured tobacco is used in substitution for United States flue-cured tobacco, it should be noted that the present Canadian duty of 40 cents a pound on United States flue-cured in relation to the prices for the United States as set out in "Table 6" indicate that in the years 1927 to 1933, inclusive, the Canadian producers were afforded a duty protection ranging from 202 per cent to 572 per cent for the years in question.

We submit that this extraordinarily high rate of protection to the domestic producer is primarily responsible for his present difficulties in finding a market for his production, by reason of the fact that so high a duty has placed the cultivator in the vulnerable position of being subject to the competition of speculators, who are encouraged to enter into the production of flue-cured tobacco solely by reason of the extraordinary profits that may be earned at times when production is less than domestic requirements.

This abnormal rate of duty invites trouble, speculation with consequent over-production, and price-cutting, and we suggest that when the rates were increased such increases may have been with a view to increasing National Revenue, but the effect to the producers arising from such increase in duties was obviously not foreseen.

I am not proposing to argue either for or against the principle of a protective duty, although we are in favour of protection, but we submit that the rate of duty should be protective and that the present rate of duty considerably exceeds protection. We therefore suggest that the present distress of the cultivators would no have arisen had the duty on imported leaf tobacco remained at 10 cents a pound, which would represent a protection of 50 per cent on comparable imported flue-cured tobacco.

Producers

I submit that the present overproduction has been brought about by speculators who have exploited the production of flue-cured tobacco. In considering this point we have some information as to those who produce flue-cured tobacco, and I have therefore prepared a summary of the Imperial Tobacco Company's survey of the cultivation of the 1933 crop, dividing the cultivators into five categories as follows:—

1. Proprietor Cultivator, being the production of proprietors who cultivate their own farms.

2. Tenants of proprietors of one farm. This category takes in the production of tenants only.

3. Tenants of proprietors of two farms. This category also takes in the production of tenants only.

4. Tenants of proprietors of three or more farms, and like categories two and three, takes up production of tenants only.

5. Corporation Producers. It is customary for corporations to divide their properties into farm units which are cultivated subject to conditions somewhat similar to those applying in the case of tenants.

This summary, referred to as "Table 8" indicates the number of proprietors, the number of tenants, the estimated acreage and pounds of tobacco produced in each category, and is as follows:—

TABLE 8.—CULTIVATORS OF FLUE-CURED TOBACCO—1933 CROP

—	Number of owners	Number of tenants (farms)	Acres planted	Per cent of total acres planted	Estimated pounds of tobacco produced	Per cent of total tobacco produced
1. Proprietor cultivator.....	502	502	9,787½	32·08	8,395,400	32·69
2. Owners of 1 farm tenant cultivated............	353	353	9,901½	32·46	8,378,000	32·62
3. Owners of 2 farms tenant cultivated............	35	70	2,010	6·59	1,733,900	6·75
4. Owners of 3 or more farms tenant cultivated................	17	77	2,485	8·14	2,078,200	8·09
5. Corporation producers...	10	172	6,322	20·73	5,097,300	19·85
	917	1,174	30,506	100·00	25,682,800	100·00

—	Acres cultivated	Pounds produced	Produced average pounds per acre
Average proprietor cultivator..................................	19½	16,724	858
Average tenant cultivator..................................	28¾	24,380	848
Average corporation tenant cultivator..........................	37	29,635	801

Without attempting to determine the number or proportion of speculators it is worthy of note that less than 33 per cent of the crop was produced by proprietor cultivators.

The proceeds from the sale of tobacco that has been cultivated by tenants, including the tenants of corporations, is usually shared between the proprietor and the tenant on a 50-50 basis, so that the proprietor of such farms unquestionably has a speculative interest in the returns from tobacco.

While there may be a case where the tenant has rented from a proprietor for a fixed cash sum, the fact remains that no such case has come to our attention.

I submit that we are familiar with this phase of production by reason of the fact that we are interested in the production of tobacco, being the largest purchasers, and that it is our practice when purchasing crops to obtain the consent of both the proprietor and the tenant to the price at which the crop is purchased, and to make payment jointly to the proprietor and the tenant.

I further submit that the potential profits to be earned in the production of flue-cured tobacco has not only encouraged expansion in production, but is the direct cause of overproduction.

In spite of the alleged poor prices we hear from reliable sources that there are thirty new farms being equipped to grow flue-cured tobacco for the season 1934.

IMPERIAL TOBACCO COMPANY OF CANADA, LIMITED

Production and Prices

The Imperial Tobacco Company of Canada, Limited having been given much publicity as a result of inquiries under the Combines Act, a further inquiry by a Committee of the Ontario Legislature and the inquiries before the present sub-committee on Price Spreads and Mass Buying, we think it not inopportune to submit for your consideration a few facts in relation to this Company.

The Imperial Tobacco Company, recognizing the plight that the cultivators of flue-cured tobacco were bringing upon themselves did its utmost to correct and alleviate the conditions being brought about, and to relieve the producers in their distress.

For your information I submit "Table 9," which discloses the Imperial Company's purchases of flue-cured tobacco for the ten years 1924 to 1933 inclusive, green weight, and shows the percentage of such purchases to the total crop, indicating that while the Imperial Company have bought substantial quantities, they by no means monopolize or control the marketing of the crop.

TABLE 9.—IMPERIAL COMPANY'S PURCHASES OF CANADIAN GROWN FLUE-CURED TOBACCO, GREEN WEIGHT

Crop	Quantity purchased	Per cent of crop
	000 lbs.	
1924	2,760	50·4
1925	3,579	57·1
1926	2,880	66·5
1927	5,003	80·3
1928	7,049	80·9
1929	8,890	84·7
1930	8,879	71·7
1931	14,448	59·0
1932	15,470	56·0
1933	11,961	53·2

It is the Imperial Company's experience that any increase in usings of Canadian flue-cured tobacco must be graduated so as not to disturb consumption and thereby destroy demand, and for your information I submit as "Table 10" a statement of the Imperial Companies' annual usings of Canadian flue-cured tobacco, redried weight, for consumption in Canada for the ten year period 1924 to 1933 inclusive:—

TABLE 10.—INDEX FIGURES OF ANNUAL USINGS OF CANADIAN GROWN FLUE-CURED TOBACCO BY IMPERIAL TOBACCO COMPANIES BASED ON THE YEAR 1924

Year	
1924	100·00
1925	120·55
1926	154·10
1927	188·83
1928	192·46
1929	257·80
1930	309·43
1931	313·70
1932	351·44
1933	400·29

The foregoing "Table 10" indicates a gradual and consistent increase in usings of Canadian flue-cured tobacco by the Imperial Companies rather than a sporadic increase which might disturb consumption and destroy demand. It also serves to confirm the conclusion of overproduction so very apparent in the figures quoted from public records.

That the Imperial Tobacco Company have from time to time cautioned the cultivators against overproduction is an undeniable fact, and in proof thereof I submit for your consideration the following article which appeared in the Simcoe "Reformer" of 20th February, 1930:—

DANGER OF OVERPRODUCTION OF FLUE-CURED TOBACCO

F. R. GREGORY OF THE IMPERIAL TOBACCO COMPANY CAUTIONS AGAINST TOO GREAT INCREASE IN ACREAGE—MARKET WILL NOT ABSORB SURPLUS PRODUCTION WITHOUT DEPRECIATTION IN PRICE—NO BRITISH MARKET YET.

"There is an imminent danger of overproduction of flue-cured tobacco in the County of Norfolk this year," declared F. R. Gregory, manager

of the Ontario Leaf Department of the Imperial Tobacco Co., in an interview with " The Reformer " last Friday.

Mr. Gregory, who has been in close touch with the situation in Norfolk, bases his judgment on the Company's experience in purchasing the crop in 1929 and on the probability of a considerably increased acreage during 1930.

" The Imperial Tobacco Company has handled 80 per cent of the flue-cured crop of Ontario," pointed out Mr. Gregory. " Candidly we are afraid of an overproduction especially in Norfolk. In this county last year a total of 11,500 acres were under production. Due to a very poor growing season, especially in the southern part of the territory, the yield was only eight million pounds. If a good season had been experienced, it would have been nearer ten million pounds."

Too Great an Increase

According to reports reaching us, an increase of about 3,000 acres in 1930 appears probable. Normally this would mean a production of thirteen million pounds as compared with eight million pounds in 1929. Judging by our experience last year, an increase of 1,000 acres would be all that the market could absorb. Therefore in my opinion those farmers who contemplate going into the flue-cured tobacco business and have not already committed themselves in regard to buildings, tenants, etc., would do well to stand by for another year and await developments.

" The policy of the Imperial Tobacco Company " continued Mr. Gregory, " is to keep its customers informed as to the state of the market. We prefer a steady supply at reasonable prices, rather than an overproduction with consequent disaster to many of the tobacco growers. We trust that the growers in Norfolk County will accept this advice in the spirit in which it is given, and thus a repetition may be avoided of of overproduction of burley experienced in Essex in 1928."

No Market in Britain

Asked about the development of a market in Great Britain for flue-cured tobacco, Mr. Gregory stated that no outlet of any consequence had been found for Canadian grown flue-cured tobacco in any country outside of Canada.

Mr. Gregory also explained the purpose of the new half million dollar drying and handling plant at Delhi. This was being erected in order to take care of a part of the industry now carried on at Granby, Quebec. He stressed the fact that this development should not be taken to mean that any great increase in acreage in Norfolk was warranted. The plant was being located at Delhi simply as a matter of convenience.

It will be noted that the aforementioned article has reference to the crop of 1929 which was ten million five hundred thousand pounds, and cautions the Norfolk growers to reduce their acreage for the 1930 crop; and that notwithstanding this caution the crop in 1930 was some 12,384,000 pounds.

I further submit for your consideration the Imperial Company's circular letter to the cultivators dated 18th March, 1932, which read as follows:—

It has been customary in the past to advise the growers from whom we buy tobacco as to the state of the market and the probable demand, both as to quality and quantity, for the coming season.

The production of Flue Cured tobacco in the Norfolk County district has increased very rapidly of late and there was produced last season

in Ontario enough of this type to give the Canadian Manufacturers a two years' supply, and at the same time take care of the export requirements.

It now appears that there will be an overproduction the coming season unless the export demand is far greater than it has been heretofore. We cannot forecast just what this demand will be, but in the event that the 1932 crop is of good quality, then a moderately increased demand from overseas is not unlikely.

The 1931 crop is conceded to be the best that has been grown in Canada so far, and for this reason we purchased a supply beyond our requirements. It will therefore naturally follow that our purchases from the 1932 crop will most likely have to be curtailed.

In view of this outlook we think the growers would be well advised to decrease their acreage twenty-five to thirty per cent as compared with the 1931 acreage. If this plan is not followed, an overproduction will be created, which will lead to disastrous consequences such as have occurred in the Southern States and South Africa for several seasons past, and it is to the interest of all concerned that this be avoided.

We believe, in order to establish the Flue Cured tobacco on a sounder basis, that the growers should pay more attention to the quality of the crop grown rather than the quantity produced. This can be brought about by decreased acreage, carefully selected light, sandy soils suitable for this purpose, intensive cultivation, and improvements in the types of seed planted. The demand, both for export and domestic purposes, is for a bright, thin cigarette tobacco and this can best be obtained from the priming type, such as White Stem Orinoco, old Tip, Yellow Mammoth and Bonanza, which we advocate rather than the Warne and Gold Leaf varieties. In our opinion, cutting of the stalks should be discontinued as this tends to give too large a percentage of unsuitable low grade leaf, whereas the priming of the leaves gives a more uniform product, and a higher yield of the more desirable grades.

The above recommendations are made in the best interest of the Canadian Flue-Cured tobacco industry and we trust, after due consideration, that the growers will see fit to act upon this advice.

It will be noted that the foregoing letter refers to the 1931 crop of 24,500,000 pounds, which, in spite of the warning, resulted in the 1932 crop of 27,615,000 pounds.

That overproduction has at last been recognized by the cultivators is evidenced by their undertaking to reduce acreage. I quote in part from the Simcoe "Reformer" of April 5, 1934, as follows:—

TOBACCO MEN RATIFY SCHEME TO REDUCE ACREAGE

Growers and Companies Agree on Scheme to Cut Acreage—Producers Who Co-operate Will Get Preference When Buying Opens—Special Committee Will be Named to Administer Agreement's Provisions.

Will Bring Industry Under New Market Act

Improvement of quality and reduction of the total crop is urged in a statement released at Toronto last week following a conference between tobacco association officials, manufacturers' representatives and government authorities.

It is stated that efforts will be made to reduce the acreage of tobacco planted in the Norfolk area by 25 per cent, the general feeling being that

this reduction will not only tend toward better methods of production but will aid in stabilizing both domestic and export markets.

Behind the agreement are the growers' own associations, the Ontario Department of Agriculture and the powerful buying companies. The Department is issuing an appeal to independent growers to enter into the spirit of the plan and to concentrate on producing a superior product.

Will Give Preference

Also stated at the meeting was that preference will be given in the purchase of this year's crop to those farmers who co-operate in the acreage reduction scheme.

I also quote the Imperial Company's circular letter of 2nd April, 1934, sent to all cultivators in the Norfolk District in support of the foregoing proposed acreage reduction scheme. This letter, in addition to being distributed to all cultivators was published as an advertisement in the following papers on 5th April, 1934:—

London "Free Press," M. & E. D.

London "Advertiser," M. & E.D.

St. Thomas "Times-Journal," E.D.

Tillsonburg "News," W.

Simcoe "Reformer," W.

To the Flue-cured Tobacco Growers of the Norfolk District, Ontario:—

We learn from reliable sources that members of the Flue-cured Growers' Organizations have agreed in principle that it is vitally necessary that the production of the 1934 crop of flue-cured tobacco be very materially reduced. We also understand that this proposed reduction is being endorsed by the Minister of Agriculture of the province of Ontario.

We take this opportunity of expressing our great satisfaction that this move has originated amongst the growers themselves, and as large purchasers of this type of tobacco, we are not only heartily in accord with this proposal, but strongly recommend that the acreage to be planted in the Norfolk district the coming season be reduced fully twenty-five per cent (25 per cent) as compared with the acreage planted in 1933.

It has always been our policy to advocate the production of tobacco of good quality and colour, that could be readily absorbed, rather than the production of larger crops of inferior quality for which there is necessarily a limited market, and at a lower price level. We feel reasonably sure that a reduction of twenty-five per cent (25 per cent) in the acreage should give an output that is ample for domestic requirements, and at the same time take care of any export demand that may develop.

In making our purchases of the 1934 crop, preference will be given to such growers who have co-operated with the Minister of Agriculture and the Flue-cured Growers' Organizations in reducing their 1934 production.

I now submit "Table 11" being the prices paid by the Imperial Tobacco Company of Canada, Limited, for flue-cured tobacco in the crop years 1927 to 1933 inclusive, and I particularly direct your attention to the relation of the prices paid by the Imperial Company to the prices paid for the total average crop as set out in Table 6.

Table 11.—PRICES PAID BY I.T. COMPANY

Crop	Price paid per lb.	Price paid by all others
	cts.	
1927	34·7	30·6
1928	32·3	25·5
1929	31·1	17·4
1930	31·9	32·3
1931	21·9	18·5
1932	17·3	14·3
1933	19·8	Not available

Dealing with the prices paid in the years 1931, 1932 and 1933, the Imperial Company, recognizing that the production of these crops substantially exceeded both domestic and export requirements and that the price must be ranged down to a figure nearer to a comparable price for Empire leaf; and contemplating the possibility of there being a substantial quantity of such leaf tobacco dumped on the market with no buyers, resulting in leaf in large quantities being made available to competitors at distress prices which they, in turn, could offer to the consumer at so reduced a price as to entirely disorganize the marketing of manufactured tobacco; and contemplating the possibilities of a vast quantity of Canadian leaf being offered at distress prices so discouraging the cultivators as to result in subsequent production inadequate for domestic requirements, the Imperial Tobacco Company effected purchases at prices which were still higher than comparable Empire leaf, but which it was hoped would not result in important quantities of Canadian leaf tobacco being sold at distress prices and which it is felt returned to the producer a fair profit on his investment.

Production Control

I next submit for your consideration a proposed means of controlling production of tobacco in Canada:

1. The Federal Department of Agriculture in Ottawa should issue a licence to each grower fixing the number of acres and the weight of tobacco by types (Virginia, Burley, etc.) that he may cultivate during a specific crop year.

2. The Department of Agriculture to fix the maximum of the crop to be cultivated in each year under licence.

3. Applications for licences to be filled with the Department of Agriculture by the 1st January, and they will be issued by the Department on the 15th February in each year.

4. Where the cultivator produces a quantity in excess of, or cultivates acreage in excess of that specified within his licence, the said licence shall then be terminated, but the cultivator may apply for a licence in the following year and such application to take its place as that of a new application.

5. Licences for the total crop shall first of all be allocated to applicants who operated under licence during the preceding year, and any increase in the crop shall be allocated to such applicants in ratio to their applications for increased acreage or pounds. If the proposed crop for cultivation exceeds the applications made by licensees of the previous year, the Department will then proceed to allocate such excess to applicants, firstly, who have cultivated tobacco in Canada in other years, and when all such applications have been satisfied may then allocate the balance to such applicants as are on file.

6. The Excise Act to be amended so as to provide that all wholesale dealers, packers, leaf handlers and processors shall be licensed under the Excise Act.

7. The Excise Act to provide that a duty comparable to that in effect on manufactured tobacco, be levied on all leaf tobacco sold for consumption.

8. The Excise Act to provide that licensees under the Excise Act may purchase, handle and deal in Canadian leaf tobacco produced only under licences of the Department of Agriculture. Any breach of this regulation to result in forfeiture of this licence.

8a. All exports of leaf tobacco to be licensed under the " Natural Products Marketing Act," and only leaf tobacco grown under licence, as hereinbefore provided, to be granted licence for export.

9. Licensed cultivators to report to the Department of Agriculture particulars of their sales as to quantity, price and purchaser.

10. Licensees under the Excise Act to report to the Excise Department, who will in turn advise the Department of Agriculture, all purchases and sales of Canadian Leaf Tobacco, as to quantity, price and purchaser.

11. When the average price paid to the cultivator is not less than the comparable prices paid to cultivators in the United States of America, the Department of Agriculture will then, for the following year, increase the proposed acreage by ten per cent.

It is submitted that the foregoing will effectively restrain over-production of leaf tobacco in Canada, and whereas Canadian leaf tobacco is a substitute for United States leaf tobacco and whereas the Virginia and Burley tobaccos grown in the United States of America are the governing world factors in comparable types of tobacco, it is suggested that the price of Canadian leaf tobacco should, by the operation of the foregoing proposals be held comparable to the price of United States leaf so that the price of Canadian leaf will not be advanced to the point where it will be impossible to compete with other comparable leaf when exported from Canada.

Conclusions

And now to summarize I submit the foregoing has established that—

1. In the past few years the production of Canadian tobacco has exceeded by 36 per cent to 44 per cent the total Canadian consumption of domestic and foreign leaf tobacco manufactured in Canada into cigars, cigarettes, plug, snuff, smoking and chewing tobaccos.

2. In the past few years the production of Canadian tobacco has been from 49 per cent to 60 per cent in excess of apparent world consumption of Canadian Tobacco.

3. Production of flue-cured tobacco for the five years 1924 to 1928 averaging six and one-quarter million pounds, has been increased to an average of twenty-three and one-half million pounds in the five years 1929 to 1933.

4. The problem of overproduction is primarily due to the increased production of flue-cured tobacco.

5. An important potential market for Canadian leaf tobacco exports may be found in Great Britain.

6. Canadian leaf tobacco must meet competition of other Empire leaf tobacco in Great Britain on an equal footing.

7. Canadian leaf tobacco constitutes only a small percentage of the total of leaf tobacco withdrawn for consumption in Great Britain, and represents approximately fifteen per cent of Empire leaf tobacco so withdrawn.

8. The high price of Canadian leaf in relation to prices of other Empire leaf has been an effective deterrent in extending the use of Canadian tobacco in Great Britain.

9. The duty of forty cents a pound on leaf tobacco imported into Canada ranging from 202 per cent to 572 per cent protection on comparable prices of

United States flue-cured tobacco has been responsible for the high prices paid for Canadian leaf tobacco in years when production was less than consumption.

10. Any commodity returning an unusual profit thereby encourages exploitation and frequently results in over-production.

11. Production of flue-cured tobacco in Canada has been exploited to the point of over-production.

The remedy to all of the foregoing is to be found in the control of production as suggested in the preceding paragraphs.

I submit that a real problem does exist, and that the whole problem, both cause and consequence, is made abundantly clear in the foregoing.

Opening the Market

For the sake of brevity I shall not quote even part of all that has been said or attempted to be construed from the dates on which the Imperial Tobacco Company made its first purchases of respective crops of flue-cured tobacco. I do, however, flatly deny any attempt or desire to dominate the market, or that any action has been taken by the Imperial Tobacco Company to intentionally, or otherwise, demoralize the producers, but in order to remove any further grounds for such absurd and ridiculous inferences and charges as have been laid to the Imperial Tobacco Company of Canada, Limited, I am authorized to state that we shall be pleased to meet all buyers for the purpose of determining a date on which all buyers will effect their first purchases.

However, I should point out at this time that if absurd and ridiculous inferences have been adduced to the buyers when they have never met to determine any concerted action, that from the suggested buyers' meeting for the purpose of determining the date of purchase there may arise in the minds of the producers, or others actuated by malicious motives, a suggestion that at such meeting of buyers to determine the date of opening, the buyers at that time fix and determined the prices to be paid, and I take particular pains to direct to your attention the probable consequences that may arise from such a meeting and to point out that while we do not propose that this meeting be held, we will however agree to attend and participate in such a meeting for the purpose of determining the date of opening only, providing that this committee and others who find fault with the present practice, assume the responsibility of recommending to the buyers that they adopt such a practice.

While dealing with the subject "Opening the Market," I desire to say, for the benefit of the uninformed, that leaf tobacco is not a perishable commodity such as peaches, pears, strawberries, etc., that must be disposed of within a very short time following their being offered on the market. The fact of the matter is that the Imperial Tobacco Company contracts for the purchase of practically all of its Canadian flue-cured tobacco within 45 days and the tobacco so purchased remains in the hands of the producer in precisely the same form as that when purchased until called for delivery by the purchaser. The purchaser is only able to take delivery in accordance with his capacity to handle the same, with the result that, while we may complete practically all of our purchasing within a period of less than 45 days, the fact remains that we take delivery of that tobacco over a period of approximately four months.

Under-Cover Buying

Reference has been made before this Committee, as appearing on Pages 1144 to 1149 and Page 1216, to the Imperial Tobacco Company of Canada, Limited having purchased leaf tobacco for the British Leaf Tobacco Company, Limited and the Imperial Tobacco Company (of G. B. & I.) Limited.

A full and complete description of our operations in this connection is set out under cover of our letter of 4th January, 1933, addressed to the Registrar of the Combines Investigation Act, pursuant of his letter of 14th December, 1932, which was in relation to the recent enquiry conducted by the Honourable Mr. Sutherland, whose report is now before this Committee.

We submit that our purchases of raw leaf tobacco for export were unquestionably of a direct benefit to the producer inasmuch as, in so doing, we were instrumental in obtaining for the producer a market for his product. If, however, it is the opinion of this Committee, the opinion of the Government, or the opinion of the public at large, that the Imperial Tobacco Company of Canada, Limited should disassociate itself from any effort to encourage the use of Canadian leaf tobacco in various parts of the world other than Canada, I am instructed to say that we shall be pleased to limit our operations accordingly; but, in the absence of such advice, we feel that, by reason of our more extended experience in the exportation of Canadian leaf tobacco and in the uses of Canadian and other leaf tobaccos, we are probably capable of more effectively extending in some quarters other than in Canada the use of Canadian leaf tobacco than those who have less experience in the exportation of Canadian leaf tobacco and probably less experience in its manufacturing uses and who, possibly, are actuated in endeavouring to curtail our exports in the hope that such exports will be diverted to their hands for their profit.

Stalk-Cutting Versus Priming

Prior to the introduction of priming, the tobacco plant was permitted to stand in the field until, in the opinion of the producer, it was sufficiently ripened to be harvested, and whereas the bottom or sand leaves ripen first, the middle leaves next, and the top leaves last, and whereas the middle leaves, being the most valuable part of the plant, ripen after the ground leaves, the result was that the ground leaves became over-ripe and in many instances were a total loss to the producer. It therefore followed that the plant was permitted to stand as late as climatic conditions would permit, with the frequent result that there were severe losses by reason of frost.

In harvesting the crop the stalk was cut close to the ground and the entire plant hung in the kiln to cure, after which the leaves were stripped from the stalk. Curing under this method required a much greater intensity of heat by reason of the leaves being attached to the stalk and as such resulted in a higher fuel cost to the producer. Briefly, harvesting a crop under the fore-going conditions resulted in practically a total loss to the producer of the ground or sand leaves, a fair return for the middle leaves and a substantial production of top leaves, which were usually green and unmatured.

Imperial Tobacco Company of Canada, Limited recommended that all producers introduce the practice of priming of the crop—which was put into effect for the 1932 crop season—which consists of pulling the leaves, when ripe, off the stalk while it stands in the field. The ground leaves, being the first to ripen, are the first to be pulled; the middle leaves, when ripe, are next to be pulled; and the top leaves are permitted to remain on the plant for a much longer period of time than would have been the case in stalk-cutting, with the result that these leaves are ripe at the time of harvesting. A further point to be noted is that in the priming methods the plant is topped higher than was practicable in stalk-cutting, with the result that more leaves are grown to the plant, and the whole practice results in increasing the ultimate production per plant by approximately 15 per cent to 20 per cent.

Under the practice of priming, harvesting is begun two weeks earlier and, as such, reduces by at least 40 per cent the hazards of frost, etc.

While the initial outlay in priming may be somewhat more than that of stalk-cutting, the fact remains that the ultimate saving to the farmer by reason of a higher yield returns to the farmer considerably more for his crop than the additional outlay in priming. With the practice of priming the producer is enabled to put in considerably more plants per acre which again increases his yield per acre and in being able to harvest his crop gradually extends the capacity of his pack house and kilns. In many instances the producer can now cure an approximate maximum of 2,200 pounds of leaf in a kiln, whereas in the past, when the stalks were cut, his capacity would not exceed an approximate maximum of 1,400 pounds of leaf.

Priming of the crop has without any doubt materially increased the revenue per acre of the producer.

At the risk of criticism for what may be termed our shortcomings, I might add that since priming has been introduced, many farmers have asked why we did not advise and insist that they adopt the priming of crops some years past as they claim that they are now able to dispose of, as good leaf, thousands of pounds of tobacco which has formerly been thrown away because under the stalk-cutting practice of permitting these leaves to remain on the plant, only the top leaves had become approximately ripened and the ground leaves had become so over-ripe as in many instances to be a total loss.

Warehouse Sales vs. Barn Buying

Much has been said about the method of barn buying in Canada and we quote from page 1139 of the Minutes of Proceedings and Evidence of the Session of Tuesday, 24th April, 1934:—

> The rapid growth and development of the tobacco industry in Ontario has apparently far outstripped the obsolete and antiquated method of marketing tobacco still practiced under what is termed the " barn buying system."

and again quoting from the same page—

> In recent years the barn buying method of marketing tobacco has outlived its usefulness and has proved unsatisfactory to growers and the majority of purchasers. In the words of an official of one Canadian tobacco company, " No other system lends itself to so much malpractice."

The Imperial Tobacco Company of Canada, Limited have amongst their employees those who are fully experienced and competent in purchasing tobacco at warehouse sales such as are conducted in the Southern States of the United States of America, and for many and various reasons it would be to the advantage of the Imperial Tobacco Company of Canada, Limited to purchase its Ontario leaf tobacco at such a sale; but it should be clearly pointed out at this time that never has this Company advocated warehouse sales for flue-cured tobacco in Canada, nor do we advocate its application to-day, and conditions being what they are we take this opportunity of putting ourselves on record to state in the clearest and most unequivocable language that we do not recommend this practice in Ontario and in fact, advise all cultivators against the adoption of the same by reason of the fact that the adoption of this practice will necessitate the cultivators grading and tying their crops before they are offered for sale, and if the practices as followed in the United States are to be applied the producer will be obliged to pay warehouse charges consisting of 2½ per cent commission on the value of his sales, auction fees of 15 cents per basket and weighing charges of 25 cents per 100 pounds.

Furthermore, at the time the crop is ready for sale the climatic conditions in Canada will differ so vastly from climatic conditions prevailing in the Southern States where warehouse sales are in practice, that it is entirely impractical to conduct warehouse sales in Canada.

For example, the much colder climate would result in tobacco being brought to the market in a dry and brittle condition, and the handling of the same through the warehouse would require the conditioning of such leaf by expensive equipment, which would in turn add to the cost of sale and this second conditioning and handling of the leaf would also result in considerable waste.

This conclusion would appear to be confirmed by the fact that in many of the Northern States, such as Wisconsin, Ohio, Connecticut, Pennsylvania, New York and Massachusetts, tobacco is sold in the barns similarly to the present practice in Canada, and while of course the tobacco produced in these States is principally cigar types, I am informed that climatic conditions are probably the prime factor in determining this method of marketing the crop.

It is quite true that the principal buyers take delivery of Canadian tobacco during the cold months, but they have properly equipped plants to condition the tobacco in order that the same may be handled, and the point is that the adoption of warehousing sales in Canada would necessitate the introduction of an additional processing and conditioning of tobacco, which would not only add additional cost from such processing, but would introduce a second operation from which there would be a considerable loss in shrinkage through handling, as each re-handling operation results in loss through wastage.

A further point to be considered is the fact that under the barn buying practice the purchaser effects practically all his purchases within a month and a half, and takes delivery over a period of four to five months, depending upon his capacity for handling the crop, whereas under the warehouse sale practice the purchaser would only buy in quantities limited to his capacity for handling from day to day, and this would result in extending the present period of purchase, now one month and a half, to probably four months or more.

In conclusion, I again reaffirm that while the Imperial Tobacco Company of Canada, Limited will not oppose the decision of the majority of producers if they desire to adopt the warehouse sale practice, it should be clearly noted that we do not recommend any such practice and accept no responsibility if such a practice is adopted in Canada.

Virginia

While the word "Virginia" may be, on one sense, geographical, yet in its application to tobacco it is our opinion that the word "Virginia" has attained secondary significance, and describes a particular type rather than tobacco grown in the State of Virginia. We have always employed this word as such and maintain that ours is the correct interpretation of its use.

We are authentically informed that not more than 11 per cent of Virginia Tobacco produced in the United States in the crop season of 1933, was grown in the State of Virginia.

All Canadian Cigarette

Mr. Kingston, in his evidence before this Committee, as reported on page 1213, states in part as follows: "But this is my opinion that a cigarette of all Canadian flue-cured tobacco would be very popular in Canada and it would be a good thing to decrease the excise by $2 on that tobacco so they could bring it out at 15 cents."

It is our opinion that if cigarettes were offered to the consumer in Canada at 20 for 15 cents, the drawing power of the price alone would probably create a very substantial demand for such cigarettes. For your information we have submitted to the Finance Department a recommendation to that effect. We believe, however, that it would not be necessary to reduce the present rate of excise on cigarettes nearly as much as $2 per thousand as suggested by Mr. Kingston.

Reduction in Prices to Producer and Consumer

Mr. Scythes stated before this Committee that there has been no reduction in the price to the consumer in any way relating to the reduction in the prices

paid to the producer. His precise words, quoted from page 1150 of the Minutes of Proceedings of 24th April, 1934, are as follows:—

> The manufacturers of tobacco in Canada have profited to the full extent from the decline in prices and the improvement in quality, since no appreciable reduction has taken place in prices charged for manufactured tobacco.

If for nothing else, Mr. Scythes should at least be commended for his consistency, because this charge, like many others, is diametrically opposed to the facts.

For your information I submit a statement of the average sales price of cigarettes, cut tobacco, plug and cigars. I submit the same in two forms, first, including the Excise Stamp Duty and Sales Tax, and, second, excluding the Excise Stamp Duty and Sales Tax. This table covers the period 1929 to 1933, inclusive, and a notation is made alongside each year of the changes in Excise Stamp Duty or Sales Tax that has been put into effect in the year in question:—

Excise duty	Sales tax	Year	Sales value including duty and sales tax	Sales value excluding duty and sales tax
		Cigarettes		
			$	$
$6 00	3%—2%	1929	10·0271	3·8209
6 00	2%—1%	1930	9·9451	3·8197
6 00	1%—4%	1931	9·8922	3·6361
$6 00—$4 00	4%—6%	1932	9·5692	3·5034
4 00	6%	1933	7·9058	3·4664
		Tobacco		
			%	%
·20c.	3%—2%	1929	1·2838	1·0572
·20	2%—1%	1930	1·2785	1·0523
·20	1%—4%	1931	1·2444	1·0120
·20	4%—6%	1932	1·2188	·9737
·20	6%	1933	1·2106	·9433
		Plug Tobacco		
·20	3%—2%	1929	·9387	·7194
·20	2%—1%	1930	·9314	·7195
·20	1%—4%	1931	·9213	·6976
·20	4%—6%	1932	·8972	·6640
·20	6%	1933	·9030	·6531
		Cigars		
$3 50 up to $40 00	3%—2%	1929	50·1059	44·6150
	2%—1%	1930	54·2191	49·3196
	1%—4%	1931	45·4111	40·1090
	4%—6%	1932	44·4322	38·0859
	6%	1933	43·5565	37·1312

EXCISE DUTY ON CIGARS EFFECTIVE 1929–1933 INCLUSIVE

Excise duty $3.00 per 1,000
and additiona tax of 50c. per 1,000 up to $40.00 value
$3.00 per 1,000 from $40.00 to $110.00
7.00 per 1,000 from $110.00 to $150.00
10.00 per 1,000 from $150.00 to $200.00
$16.00 per 1,000 over $200.00

It will be noted in the aforementioned Tables that in each and every instance for both cigarettes and tobacco, whether Excise and Sales Tax are included or excluded, there has been an annual reduction in the price to the consumer of cigarettes and cut tobacco, and with the exception of one year when the price was increased one-hundredth of one cent; the price of plug tobacco to the consumer has decreased annually; and excepting in the year 1930 the price of cigars to the consumer has decreased annually.

Within the period 1929 to 1933 inclusive the net price paid to us for cigarettes has decreased 36 cents per thousand, and based on an assumed weight of 3 pounds per thousand, reduced 13 cents per pound. Cut tobacco has been reduced 11 cents per pound; plug tobacco has been reduced more than 6½ cents per pound; cigars have been reduced $7.48 per thousand and on the basis of 22 pounds per thousand have been reduced 34 cents per pound.

All of the foregoing calculations are computed without making any allowance whatsoever for imported leaf tobacco included in the commodities referred to, which, if taken into consideration, would further accentuate the decline in the price paid to the manufacturer in relation to the decline in the price paid to the Canadian tobacco producer.

Briefly, the manufacturers' reduction in prices to the consumer has considerably exceeded the reduction in prices paid to the producer of leaf tobacco in Canada.

Cost of Production

In the hearing to date specific evidence of capital invested in farms and equipment to produce flue-cured tobacco, and evidence as to the actual cost of production, has been conspicuous by its absence. It would therefore probably not be inopportune at this time to direct to the attention of the Committee some pertinent facts relating thereto.

In submiting the following we desire to go on record that we do not object to the profits earned by the producers. That which is now to be submitted is not presented with a view to protesting the profits earned but is adduced for the sole purpose of putting on record a number of actual facts pertinent to evidence previously submitted to this Committee.

We have in our possession certain statements indicating the cost of production on various farms, the first of which, while not disclosing the total number of acres included in the farm, nevertheless indicates that an investment in land, dwelling, buildings, kilns, machinery, greenhouse and other equipment amounted to $16,000. On this particular farm 35 acres of land were cultivated to flue-cured tobacco in the season of 1933.

The cost of operations, which included interest at the rate of 5 per cent on investment in land, buildings, kilns, machinery and all other capital expenditures, taxes on property, depreciation on buildings, machinery, etc., horses, feed, fertilizer, fuel, seed, insecticides, twine and paper, oil and lubricants, repairs, hail insurance, building insurance, crop insurance, labour, $2,050, cost of boarding labourer and curer's wages, etc., amounted to a total of $5,670, which is equivalent to a cost of $161.97 per acre or 13·86 cents per pound.

After providing for all the aforementioned expenses and 5 per cent interest on capital investment, there remained a further profit or return profit or return of $2,900, which means that the total net return on the invested capital of $16,000 is some 23 per cent and before providing interest on invested capital the net profit is 43 per cent of the gross sales value.

The foregoing is no hypothetical case but is the actual experience of the operations of a flue-cured tobacco farm cultivating 35 acres of flue-cured tobacco, producing 40,902 pounds which sold at less than 21 cents per pound.

The second case deals with that of a proprietor of 33 acres cultivated by a tenant producing 34,400 pounds tobacco, which was sold to Imperial Tobacco Company at $19\frac{1}{3}$ cents per pound, yielding $6,650 or $201 per acre.

The various out-of-pocket expenses charged against this production cover seed, fertilizer, hay and oats, fuel, insurance on tobacco, curer's salary, bran and insecticide, steaming greenhouses and kilns, trucking, paper, twine, oil and grease and taxes, amounting in all to a total of $1,600, which is the equivalent to $4\frac{2}{3}$ cents per pound of tobacco produced or equal to $48.50 per acre.

Deducting from the gross revenue of $6,650 the out-of-pocket expenses of $1,600, there remains the sum of $5,050, equal to $153 per acre to cover insurance and depreciation on buildings and equipment, provide wages to the cultivator and profit.

In this particular instance the living expenses of the tenant and his family amounted to $1,150, which would leave $3,900 or $118 per acre for insurance and depreciation on buildings and equipment and profit on 33 acres of land.

$3,900 on the crop of 34,400 pounds is something in excess of 11 cents per pound.

It will be noted that this crop was sold at $19\frac{1}{3}$ cents per pound, and if we deducted 11 cents we have a residue of $8\frac{1}{3}$ cents per pound, which represents the cost of production to which must be added an amount to cover insurance and depreciation on buildings and equipment, in order to determine the net cost of production.

The proprietor of the land, after paying for his proportion of the out-of-pocket expenses of cultivation, received $2,375, which must cover insurance and depreciation on buildings and equipment, and profit on 33 acres of land.

The cultivator was provided with a house and in addition received $2,675, and after deducting the living expenses of the tenant and his family amounting to $1,150, there remains a surplus to the tenant of $1,525.

If in the foregoing case we take the total out-of-pocket expenses of $1,600 and add thereto $1,150 to cover the living expenses of the tenant and family, and add a further sum of $700 to cover depreciation, it will be noted that the total cost of production then amounts to $3,450, which apportioned on 33 acres of land equals a cost of $105 per acre.

The third case is that of a proprietor of 37 acres cultivated by a tenant producing 36,500 pounds flue-cured tobacco, which was sold to Imperial Tobacco Company at 20·85 cents per pound, yielding $7,600 or $205.40 per acre.

The various out-of-pocket expenses charged against this production cover seed, fertilizer, hay and oats, fuel, insurance on tobacco, curer's salary, bran and insecticide, steaming greenhouses and kilns, trucking, paper, twine, oil and grease and taxes, amounting in all to a total of $1,980, which is the equivalent to $5\frac{1}{2}$ cents per pound of tobacco produced or equal to $53.50 per acre.

Deducting from the gross revenue of $7,600 the out-of-pocket expenses of $1,980 there remains the sum of $5,620 equal to $151.90 per acre to cover insurance and depreciation on buildings and equipment, provide wages to the cultivator and profit.

In this particular instance the living expenses of the tenant and his family amounted to $1,600, which would leave $4,020 or $108.70 per acre for insurance and depreciation on buildings and equipment and profit on 37 acres of land.

$4,020 on the crop of 36,500 pounds is something in excess of 11 cents per pound.

It will be noted that this crop was sold at 21 cents per pound, and if we deducted 11 cents we have have a residue of 10 cents per pound, which repre-

sents the cost of production to which must be added an amount to cover insurance and depreciation on buildings and equipment, in order to determine the net cost of production.

The proprietor of the land, after paying for his proportion of the out-of-pocket expenses of cultivation, received $2,445, which must cover insurance and depreciation on buildings and equipment, and profit on 37 acres of land.

The cultivator was provided with a house and in addition received $3,075, and after deducting the living expenses of the tenant and his family amounting to $1,600, there remains a surplus to the tenant of $1,475.

If in the foregoing case we take the total out-of-pocket expenses of $1,980 and add thereto $1,600 to cover the living expenses of the tenant and family, and add a further sum of $700 to cover depreciation, it will be noted that the total cost of production then amounts to $4,280 which, apportioned on 37 acres of land equals a cost of $116 per acre.

The foregoing are not hypothetical cases, but are literally the actual experience of specific farms producing flue-cured tobacco during the 1933 crop season.

We next have the opinion of an experienced producer who, during the crop season 1933, produced 120,000 pounds flue-cured tobacco.

It is his experience that the capital investment to operate a farm to grow 30 acres of tobacco would necessitate an outlay of $10,000. His total cost of production, which includes living expenses and wages for all growers and before providing any return on capital investment, amounts to $147 per acre.

In his case the 30 acres of land yielded him $7,718, and if we deduct his cost of operating 30 acres amounting to $4,410, there remains a net profit of $3,308 on an investment of $10,000, which is a net return of 33 per cent on investment and is the equivalent to a net profit of 43 per cent on the gross sales value.

No. 5—dealing with a purely hypothetical case, contemplates the purchase of 100 acres of land at a cost of $6,500, on which we propose cultivating 35 acres of land and on which it is estimated that $3,500 would apply to buildings.

We estimated an expenditure of $500 to repair the house and barn, the construction of 6 kilns at $500 each amounting to $3,000, construction of a greenhouse $750, construction of a pack house $1,500, stripping the barn $150, and the erection of a shed $100, making a total investment in buildings of $9,500, which we contemplate depreciating at the rate of 5 per cent per annum.

The equipment will consist of two horses at a cost of $300 which we propose to depreciate at the rate of 20 per cent per annum, various horse-drawn equipment, tools, hose, sprayers, etc., etc., $700, which we propose to depreciate at the rate of 15 per cent per annum, pumping equipment at a cost of $155, to be depreciated at the rate of 25 per cent per annum, and miscellaneous equipment and supplies at a cost of $345 which we propose to depreciate at the rate of 15 per cent per annum.

The total capital investment as mentioned in the foregoing amounts to $140,000, and the depreciation thereon as set out amounts to $705 per annum, all of which we propose to load on 35 acres of land.

If, in this case, the 35 acres of land produced 1,000 pounds to the acre, and we sold at a price of $22\frac{1}{2}$ cents per pound, the gross return would be $7,875.

Estimating the cost of production at $175 per acre, the total of such charges would amount to $6,125 which, if deducted from the sales value would leave a residue of $1,750 as a return on capital, being the equivalent to 22 per cent profit on the gross sales value and the equivalent to $12\frac{1}{2}$ per cent return on the capital investment.

If, for example, the crop were sold at 18 cents per pound, the same would have resulted in a net profit of $2\frac{3}{4}$ per cent on the gross sales value of $1\frac{1}{4}$ per cent on the capital investment.

The foregoing hypothetical case estimates a capital investment of $14,000 in a farm to grow 30 to 35 acres of flue-cured tobacco, which we submit is considerably higher than is actually the case; for example, one experienced producer referred to, estimated the cost of such a farm unit at $10,000, and Mr. Freeman stated before this committee on Tuesday, 24th April, page 1185 of the Minutes, that "If I bought a farm of 50 acres and equipped it for the growing of 30 to 35 acres of tobacco, my cost would be around $10,000 to $11,000."

It will be noted that the Department of Agriculture in their Bulletin No. 168 dealing with the Cost of Producing Farm Crops in Eastern Canada, on page 126, estimates the cost per acre of producing bright flue-cured tobacco at the Dominion Experimental Farm, Harrow, at $166.15 per acre.

We now have six figures on the cost of production per acre, five of which represent the actual experience of producers. The sixth is purely a hypothetical case in which the estimated cost considerably exceeds any of the individual cases referred to above. The average cost per acre of production determined from the foregoing is $145 per acre.

On Tuesday, 24th April, 1934, this committee heard evidence from Mr. E. C. Scythes, President of the Vittoria Tobacco Plantations Limited From information to hand it would appear that the Company was incorporated under Ontario Law 15th December, 1927, with an authorized capital of $250,000, and was formed for the purpose of taking over some 963 acres of tobacco land at Vittoria. All the directors, the president, the secretary and the treasurer reside in Toronto.

Of the authorized capital $160,000 was offered to the public, the funds derived therefrom to be used for the purpose of purchasing the property.

It would appear that in January, 1931, their various equipment was valued at $16,000, buildings and kilns $95,000 farm improvements $1,200, land $80,000.

The last return of this Company filed with the Provincial Secretary indicates that the company hold real estate in Norfolk county with an assessed value of $53,100.

Our information is that in the crop season of 1933 the Vittoria Tobacco Plantations Limited had under cultivation to flue-cured tobacco approximately 406 acres of land, from which was produced 299,000 pounds of tobacco. Of this production the Imperial Tobacco Company purchased one crop produced from 30 acres of land by Camiel Lecluyse, who was the shareman in this crop.

This particular crop yielded $8,514.24 and if we deducted from this figure the highest cost as yet adduced, being an estimate of $175 per acre, we then deduct $5,250, which leaves a net profit of $3,264, which if we take the highest adduced investment cost of $14,000 per 100 acre unit, returns a net profit of 23 per cent on investment, and similarly the net gain represents a net profit of 38 per cent on the gross sales value.

While for the purpose of the foregoing I have employed the highest available operating cost per acre and highest capital investment per farm unit, they are, however, sufficient, I am sure, to clearly indicate that the crop in question was not actually sold at what could fairly be termed a loss in profits to the investor, and it should likewise be noted that we purchased this crop at a price of 24 cents per pound and in relation thereto I think it might be interesting if you were to refer to page 1167 of the Minutes of the Proceedings of this Committtee held Tuesday, April 24, 1934, from which I quote as follows:

By Mr. Kennedy (Peace River):

Q. What would you regard as a fair price for the last three or four years?—A. What would I regard as a fair price that the grower should get for his product?

Q. Yes. Approximately.—A. I think a price, a range of prices between—well, we were not any too prosperous when the market prevailed at 40 cents a pound. If we had good crops, a good season, we were able to make a small return on capital at 40 cents a pound.

If, for example, the crop that we purchased from Mr. Scythes and referred to above, had been purchased by us at 40 cents a pound, and we still employed the highest estimated cost of production per acre, this crop would then have sold at $14,190.40 and would have yielded Mr. Scythes "small return on capital" of $8,940.40 or a net profit of 63 per cent per annum on capital invested.

The return filed with the Provincial Secretary by the Ontario Tobacco Plantations Limited indicate that the Company was incorporated on October 19, 1927, with head office at Simcoe, Ont.

The capital is divided into 10,000 preference shares of $100 each, of which 4,146 have been issued fully paid, and 200,000 common shares of no par value, of which 100,000 were issued at a valuation of about $1 each; 99,994 of the common shares were issued for assets.

The Company is reported to hold about 1,400 acres in the Norfolk County valued at $185,843.59.

This Company issued a very interesting prospectus from which I propose to quote a few features that are pertinent to the present case.

The prospectus quotes from an article entitled "Canadian Tobacco at Wembley and Olympia, 1925," which reads in part as follow:

> It can definitely be said that Canadian leaf tobacco, clean and sound, well graded and well packed, is greatly preferred in every tobacco manufacturing plant of importance in the British Isles to leaf from any other part of the Empire.
>
> I am more and more satisfied that Canada will reach the 50,000,000 mark (in exports) within the next eight years.

The Extraordinary Profits Made by the Grower

> Essex was the first county in Ontario to take up tobacco farming in an intensive manner, then Kent, and, later, Norfolk and Elgin. In all of these counties the prosperity of the farmers is reflected on every side. Those who have been cultivating tobacco for a number of years have become wealthy. The profit in the growth of tobacco is well exemplified in the current land values. Farms in Essex that were worth less than $100 an acre only ten years ago, are to-day being sold for as high as $800 and $1,000 an acre.
>
> It is worthy of note that, in the three groups of largest size farms, tobacco supplied over 70 per cent of the total farm revenue although the acreage in tobacco represented only 10 to 15 per cent of the total farm area. This is a good indication of the relative revenue producing power of tobacco and other farm crops and products in a year of good prices such as 1925 was.
>
> Taking the business of the whole 33 farms, there (bright leaf tobacco farms including the inefficient) were profit items (return on investment) of $102.30 on each acre of tobacco. This is sufficient to yield 5 per cent on investment on the movable capital (machinery and livestock) and 11 per cent on the total land investment which average $579 for each acre in these farms. On the efficient farms profits amounted to $232.64 per acre, equal to 5 per cent on movable capital and 22 per cent on land investment of $821 per acre.

Returns 25 Times Greater than Other Crops

> It is doubtful if Canada can produce for years to come all that is required for the making of cigarettes. Should that be possible, there

still remains the great British market open to the Canadian producer, under the 25 per cent preference.

Dealing with "Estimated Earnings" they state—

It is estimated that more than one-third of the Company's lands, or, say, 650 acres, will be in tobacco production for 1928. It is expected that a further 1,100 acres will be devoted to other crops, such as clover, wheat, barley, oats and other grains. The Company's policy will be to observe a rotation of varied crops as the best means of obtaining the largest financial return and at the same time conserving the soil. On the above basis, it is estimated that earnings for 1928 will be as follows (assuming normal weather conditions to prevail):—

Six hundred and fifty acres in tobacco, producing an average of 800 pounds per acre, and selling at 35 cents per pound; revenue would be..	$ 182,000	
Est. Net Revenue from remaining 1,100 acres, estimated to average $10 per acre..	11,000	
		$193,000
Total operating costs in producing tobacco.. ..	......	65,000
Est. Net Revenue (before Depreciation and Income Tax) equal to more than three and one-half times Preference Stock Dividend requirements..	......	$ 128,000

CANADA'S CHIEF ADVISER RETAINED AS MANAGER

The Company has been extremely fortunate in securing the services of Mr. H. A. Freeman, B.S.A., as Manager. Mr. Freeman is recognized as Canada's outstanding tobacco growing expert. For the last eleven years he has been actively identified with the Tobacco Division of the Dominion Department of Agriculture, his present position being that of Superintendent of the Government Experimental Farm at Harrow, Essex County, Ont. Mr. Freeman enjoys the complete confidence of the industry in Canada, the United States and Great Britain.

I particularly direct your attention to the above reference of estimated earnings, from which you will note that 650 acres of land producing 800 pounds per acre returns a gross output of 520,000 pounds. This 520,000 pounds divided into their total operating costs of $65,000 in producing tobacco, results in a cost of 12½ cents a pound, before depreciation, to produce flue-cured tobacco.

For your information the Imperial Tobacco Company of Canada, Limited have this year purchased from Ontario Tobacco Plantations Limited, 220,265 pounds tobacco at an average price of 20·04 cents per pound, for which the Imperial Company paid the Ontario Tobacco Plantations the sum of $44.148.94. According to their own figures, as quoted from their prospectus, the cost of production is 12½ cents per pound, which would mean that, before providing for depreciation, the total cost to the Ontario Tobacco Plantations of the tobacco they sold to the Imperial Company would amount to $27,533.12, and whereas the Imperial Company paid $44,148.94 for the tobacco in question, this transaction omitting depreciation, resulted in a profit to the Ontario Plantations of $16,615.82, which is equivalent to a profit of 37 per cent on the gross value of their sales, and calculating their capitalization on the aforementioned estimate of $14,000 per 100 acre unit, the above profit of $16,615.82 is the equivalent to a net profit of 16 per cent per annum on capital.

Mr. Freeman, in testifying before this Committee on Tuesday, 24th April, is reported on page 1185 of the Minutes of Proceedings to have said: "I would gauge that on the price if he receives more than an average of more than 849

pounds and more than an average of 20 cents a pound he could, in my own experience that is, make a little money." Again quoting from page 1185, Mr. Freeman said: "My experience has been very similar to the results obtained by the Government. I have used their figures with respect to the rental of land, interest on investment, rates of wages, hours of labour and cost of fertilizer and fuel and curing."

For your information, the Imperial Tobacco Company purchased from Mr. Freeman two crops of flue-cured tobacco totalling 69,848 pounds, for which the Imperial Company paid the sum of $14,409.82. It is our information that these crops were the produce of 73 acres of land and, using the Government figures as adopted by Mr. Freeman, being a cost of $166.15 per acre, then the total cost of these crops to Mr. Freeman would be $12,128.95, which produced a net profit of $2,280.87, which is equal to a net profit of 16 per cent on the gross sales value and, using his figure above quoted of the cost of farms and equipment, is equivalent to a net profit of more than 10 per cent per annum on the invested capital.

The Lake Erie Tobacco Company, Limited is an Ontario company incorporated 7th December, 1927, and the returns filed with the Secretary of State indicate that this company is capitalized with 250,000 shares of no par value, and in 1931 it is reported that the cash consideration for the shares was $250,000.

From information to hand it would appear that the Lake Erie Tobacco Company, Limited are the proprietors of approximately 2,250 acres of land, which together with all buildings, is valued at $312,000. The investment in horses, implements, sundries and equipment is estimated at $14,000.

Mr. Kingston in his evidence before this Committee on Wednesday, 25th April, 1934, stated (page 1203 of the Minutes of Proceedings): "Last year I had in about 1,350 acres in actual crop."

> Q. And what was your production last year per acre?
>
> A. Well, we got between 1,100,000 and 1,200,000 pounds. Our land is light, lighter than most of it. It is what they call the plain field sand and it grows a thin type of cigarette tobacco. Only runs about 800 pounds to the acre.

Again quoting from page 1208 of the Minutes of Proceedings, Mr. Kingston states, "To make this a reasonable business matter giving me a small return on what investment I have, we ought to get an average of 30 cents a pound."

For your information the Imperial Tobacco Company purchased from the 1933 crop of the Lake Erie Tobacco Company 1,053,335 pounds of tobacco, for which was paid the sum of $209,903.21. Accepting their estimate of acreage and total pounds produced, we estimate that 1,125 acres produced that part of the crop sold to the Imperial Tobacco Company. 1,125 acres at the highest estimated cost of $175 per acre would amount to a total cost of production of $196,875 which, if deducted from $209,903.21, would return a net profit of $13,028.21, which is equal to more than 6 per cent net profit on the gross sales value. This net profit of $13,028.21 is equivalent to 5 per cent per annum on the paid-up capital of the company, namely—$250,000; but if, for example, the cost of production of Mr. Kingston is nearer the average cost of $145 per acre, as determined above, then the tobaccos which he sold to the Imperial Company for $209,903.21 cost him $163,125 and yields a net profit of $46,778.21, which is equivalent to more than 22 per cent net profit on the gross sales value and more than 18 per cent per annum on the paid-up capital stock of the Company.

Mr. Kingston, notwithstanding his argument on unprofitable prices, has acquired and put in two new farms for the 1934 crop season, which hardly seems consistent with his claim of lack of profit in the cultivation of flue-cured tobacco.

The aforementioned illustrations of actual purchases made by the Imperial Tobacco Company from various corporations and individuals have not been selected in any way whatsoever from the material at our disposal but represent

the first of a number of cases that are dealt with for the purpose of shedding some light on the poverty or otherwise of the producers, and so as not to belabour the issue we feel that the foregoing cases may probably suffice; but if additional particulars are desired, then as the Imperial Tobacco Company have purchased substantial quantities of tobacco from—

Norfolk Tobacco Plantations Limited
Windham Plantations Limited
St. Williams Plantations Limited
Southern Canada Tobacco Plantations Limited
Hillcrest Tobacco Farms
Simcoe Tobacco Plantations Limited

and others, we shall be pleased to prepare similar particulars in relation to the foregoing or any other producer from whom we acquired tobacco.

At this time a summary of our total purchases in the Norfolk district from the 1933 crop, the price paid, and the estimated profit to the producer would no doubt be of interest to the Committee. For your information, the Imperial Tobacco Company purchased in the Norfolk district from the 1933 crop of Canadian flue-cured tobacco 10,392,176 pounds, which was produced from 10,859 acres and for which we paid the sum of $2,069,115.82 or 19·91 cents per pound. The average yield per acre of tobacco purchased by the Imperial Tobacco Company was 957 pounds. It will be noted that the yield of tobacco purchased by the Imperial Tobacco Company is in excess of the Imperial's estimate of the average of 842 pounds per acre for the entire crop and that the Imperial's estimate of a total acreage of 30,506 is slightly in excess of the Department of Agriculture's estimate of 30,042 acres. In these calculations we have taken the actual pounds of tobacco delivered from each respective farm unit and the number of acres allocated to each of the respective farm units from which we obtained delivery of tobacco, such acreage being part of our estimate of the total of 30,506 acres of flue-cured tobacco. The estimated capital invested in the production of tobacco purchased by the Imperial Tobacco Company is based on the hypothetical case heretofore submitted, being the acquisition of 100 acres of land, of which 35 acres will be cultivated for tobacco at a cost for land and equipment of $14,000 which, on the average, is equivalent to $400.00 per acre under cultivation. It therefore follows that the capital invested to produce the flue-cured tobacco bought by the Imperial Tobacco Company amounts to $4,343,600.00.

If, for the cost of production, we employ the highest available cost, which is an estimated figure as set out above, namely,—$175 per acre, then the total flue-cured tobacco 1933 crop purchased from the Norfolk producers nets such producers the sum of $168,790.82, which is equal to a net profit of more than 8 per cent on the gross value of the turnover or approximately a net profit of 4 per cent per annum on the capital investment.

If, for the cost of production, we employ the Department of Agriculture's cost per acre of $166.15, then the total flue-cured tobacco 1933 crop purchased from the producers net such producers the sum of $264,892.97, which is equal to a net profit of more than 12½ per cent on the gross value of turnover or a net profit of more than 6 per cent per annum on the capital investment.

If, for the cost of production, we employ the average cost of $145.00 per acre, as determined above, then the total flue-cured tobacco 1933 crop purchased from the producers nets such producers the sum of $494,560.82 which is equal to a net profit of 24 per cent on the gross value of turnover or more than 11 per cent per annum on the capital investment.

In determining a fair price for flue-cured tobacco, it is first of all necessary to establish the cost of production. In evidence previously submitted much stress has been laid upon the hazards of producing flue-cured tobacco, namely,—frost, drought, hail and all other uncontrollable risks, without so far there

having been offered any definite suggestion as to a basis of computation which would provide for such risks. It should be noted, however, that the records of production do not indicate that there has been a total crop failure as a result of any such hazard in the past number of years, although it is probable that there may have been a total loss to one or more individual producers. A further factor, in adding to the difficulties of determining a production cost and contemplating the aforementioned hazards, is that, not only has the production of flue-cured tobacco materially increased in the past number of years, but the introduction of the priming of the crop has itself reduced by at least 40 per cent the loss hazard from frost and has also increased the yield in quantity and value of the crop within the past two years. The benefits from priming are very fully dealt with elsewhere in our present submissions; but, in order to arrive at some figure of yield which would contemplate all of the hazards of crop failure, including frost, drought, hail and blow-outs, I submit that, if the average yield per acre over a period of years is taken as the basis of production, such a figure, by reason of the fact that it takes into consideration losses from frost, hail, drought and blow-outs, is a sufficient and satisfactory basis upon which to estimate a cost of production, provision for the hazards above enumerated having been made in the quantity taken to represent the yield per acre. I would therefore suggest that we base an estimate on the average output of a number of years and for that purpose suggest that the basic yield for computing the cost of production should be 850 pounds per acre. To this figure I have made no addition resulting from the benefits to be derived from priming tobacco, which practice has only been in effect for the past two years, and it therefore follows that, had priming been in effect for a longer period, the average yield per acre would probably be much higher than the figure of 850 pounds, which I propose to use. I am sure that it is hardly necessary to mention that the higher the yield per acre, the lower the cost of production per pound; but I am quite satisfied to employ this figure simply for the purpose of arriving at some basis of cost, and I suggest that this figure of 850 pounds more than provides for all of the hazards of cultivation referred to above.

By reason of the fluctuations in the yield from various acres, I suggest that it would be advisable to determine the cost of production on an acreage basis because, in that, we have a fixed and determined quantity and from that we can calculate the cost per pound based upon the average yield per acre. Some figures on the cost of production per acre are quoted in the foregoing and if those costs per acre are converted into the cost per pound, based on the yield of 850 pounds per acre, I submit that the result will be the actual cost of production per acre, which would include all disbursements, depreciation, wages and provision for loss arising from the hazards of frost, drought, hail and blow-outs; and by reason of the fact that the yield per acre now proposed to be used does not make any provision for the further benefits arising from the practice of priming the crop, the result then determined will be, in fact, somewhat in excess of the actual cost of production. I therefore submit a table of costs of production per acre converted to the cost per pound on the basis above determined, which is as follows:—

Cost per Acre	Corresponding Cost per Pound
105·00	12·353
116·00	13·647
145·00	17·059
147·00	17·294
161·97	19·055
166·15	19·547
175·00	20·588

At this time it might be opportune to note that Mr. Scythes in his evidence before this Committee on Tuesday, 24th April, 1934, as reported on page 1175 of the Minutes of Proceedings and Evidence, appears very loathe to dwell on the relative costs of producing flue-cured tobacco in Canada and the United States.

Mr. Freeman appearing before your Committee on the same date and dealing with this subject, as reported on page 1190, while not attempting to account for the difference in cost in any specific manner, blithely circumvents the issue in a number of generalities to the effect that the cost of living in Canada is higher and we also have a much more efficient method of production.

It occurs to us that the Committee should probably be informed as to the various causes and the specific items and amounts that go to make up this difference in price. For example, the relative prices in Canada and the United States for the year 1933 were more nearly comparable than at any time within the past six years. At that time the price paid to the cultivator in Canada, as indicated on "Table 6" herein, was 19·8 cents per pound, whereas the price paid to the producer in the United States was 15·2 cents per pound, from which it is necessary to deduct 1½ cents per pound to cover the costs of hand-tying and grading, and to deduct a further 70 cents per 100 pounds to cover warehouse charges which must be paid by the cultivator, leaving a net price of 13 cents per pound. No doubt the Committee will call on the cultivators in Canada to explain why the cultivator in the United States can operate at a profit at 13 cents per pound, whereas the producers of similar types of tobacco in Canada cannot make a profit at 19·8 cents per pound, which is more than 50 per cent increase in price.

Reduction in Excise—Reduction in Price to Consumer

Mr. Scythes in his evidence reported on pages 1160 and 1161 remarked that with a reduction of 33 per cent in the rate of excise on cigarettes, the price to the consumer was reduced by 25 per cent, implying that the full benefit of the reduction in excise was not passed on to the consumer and that the Tobacco Companies retained some part of this reduction in excise. This is contrary to the fact. The fact of the matter is that the tobacco manufacturing companies not only passed on the whole of this reduction, but in the majority of cases further reduced their net price with the result that, while the excise on cigarettes was reduced by $2 per thousand, the price to the consumer was actually reduced $2.50 per thousand. The popular brands of cigarettes which previously sold at twenty for 25 cents were thereafter sold twenty for 20 cents.

Duty Free Leaf

Throughout the world, tobacco has been the subject of taxation for the purpose of providing National Revenue, and it has been proved by experience that when the tax burden exceeds the saturation point, the result is a decline in consumption and in National Revenue. It has also been found that the best results can be obtained from a rate of duty that is comparable to all forms of tobacco.

This last principle has not been adopted in Canada, as is evidenced from the difference in the rates of duty applicable to cigarettes, cut and plug tobaccos and cigars.

It is not my intention at this time to dwell at any length on the effect of taxation in Canada on consumption or revenue, but for the benefit of any of those who are interested in this subject I would refer them to the Record of Public Sitting of the Advisory Board on Tariff and Taxation, June and October, 1927, Reference 69—Cigarettes, adding that the argument submitted therewith still holds good.

I, however, direct your attention to the fact that in Canada tobacco in its manufactured form, when offered for consumption is subject to an Excise Duty, whereas tobacco unmanufactured offered for consumption is free of Excise duty. I am credibly informed that, of all countries in the civilized world so taxing tobacco for revenue purposes (possibly excluding China), Canada is the single exception where such a condition exists.

This discrimination operates to the detriment of the cultivator by reason of the fact that manufacturers, recognizing the necessity of maintaining his investment in established trade marks and brands, offers to the consumer the best of tobaccos obtainable in the range in which the brand applies, and in consequence creates a demand for increasing quantities of the better types of tobacco grown in Canada, but of recent years duty free leaf is finding a wider demand and is now being sold by store-keepers from coast to coast, side by side and in direct competition with duty paid manufactured tobacco.

In the majority of cases this duty free leaf is inferior to that put up by the manufacturers, and sells to the consumer at such a reduced price as to substantially cut into the manufacturer's trade.

We estimate that the duty free leaf sold for consumption is now equivalent to approximately 15 per cent of the total manufactured tobacco consumed in Canada in the form of cigarettes, plug, cut, snuff and cigars. It obviously follows that the manufacturer must take some steps to protect his investment and is thereby compelled to market the cheapest commodity within his power to meet the competition of such duty free leaf.

This situation is nothing more or less than price cutting in its most vicious form, because in forcing the manufacturer to merchandise a much cheaper commodity he must reduce his costs all along the line, and likewise reduce in his purchases of leaf tobacco from the cultivators.

Another alternative that the manufacturer is forced to adopt is the cultivation of the taste of the consumer to a type of tobacco that is not comparable to that offered for consumption in leaf form. This in turn results in diminishing the manufacturer's demand for that type of leaf tobacco which he cannot meet in price.

The net result of this vicious discrimination is losses to the vast majority of the cultivators of tobacco in Canada, and it is therefore submitted that this situation should be recognized and remedied by means of the application of an Excise duty on leaf tobacco sold for consumption equal to the duty for the time being exigible on manufactured tobacco.

Your attention is directed to the provisions regulating the sales of leaf tobacco in U.S.A., and we unhesitatingly recommend their practice for adoption in Canada, which is to the effect that leaf tobacco sold by the cultivator is not subject to Excise duties, but when sold for consumption by other than the cultivator is subject to a duty equal to that on manufactured cut and plug tobacco.

Relation of Producers to Manufacturers' Capital

Mr. Scythes, as reported on page 1159 of the Minutes of Proceedings and Evidence, quotes from a prepared statement, in part, as follows:—

> The amount of money invested by the growers of flue-cured tobacco alone in Western Ontario in land, buildings and equipment is around $20,000,000, whereas the total amount of money invested by the tobacco manufacturing concerns in Canada in land, buildings and equipment in 1932 was around $11,252,422.

and on page 1160:—

> Q. Your figures show that only $11,252,422 is invested by tobacco manufacturers in Canada. Where do you get those figures?—A. I believe

> our secretary took these figures from the final statistics of the Department of Trade and Commerce. That refers to fixed assets only.

and on page 1171, in replying to the question:—

> Q. And the comparison of investments between the investment of the growers and tobacco manufacturers; is that a fair comparison, \$20,000,000, against \$10,000,000?—A. I would not say that that was. I think the secretary in inserting that paragraph wanted to show the amount of fixed investment.

On referring to the report on the Tobacco Industries in Canada, 1932, issued by the Department of Trade and Commerce, Dominion Bureau of Statistics, Census of Industry, I find that they record the capital invested in the Tobacco industries for the year 1932 as \$42,351,650.

As previously submitted, we estimate there were 30.506 acres of land under cultivation of flue-cured tobacco, which, valued at a total of twenty million dollars as suggested by Mr. Scythes, would be equivalent to \$656 per acre, on the assumption that the total investment cost is loaded on to the acres under cultivation.

In the hypothetical case dealt with herein it is estimated that the total investment cost of 100 acres would be, at the maximum, \$14,000, which, loaded on to 35 acres under cultivation, is equivalent to \$400 per acre. On this basis the 30,506 acres of land would represent an investment of \$12,202,400, and whereas Mr. Scythes has been somewhat extravagant in his other claims and charges, it is conceivably possible that the valuation he has used is an estimated figure and somewhat in excess of the actual investment.

Capital Structure of Imperial Tobacco Company of Canada, Limited

Mr. Scythes in his evidence before this committee on Tuesday, 24th April, 1934, and reported on pages 1178, 1179 and 1180, proceeds to dwell on the capital structure of Imperial Tobacco Company of Canada, Limited, and I must confess to entertaining some difficulty in reconciling the statements that he has made with the actual facts. It therefore occurs to me that a brief summary of a simple and straightforward proposition might shed some light on Mr. Scythes' rather involved dissertations.

Firstly, the American Tobacco Company of Canada, Limited, was incorporated on 7th September, 1895, with an authorized capital of one million dollars, all of which was subscribed and fully paid for in cash.

The first Imperial Tobacco Company of Canada, Limited, was incorporated on the 11th June, 1908, with an authorized capital of eleven million dollars, which was divided into $1,027,397\frac{26}{100}$ preference shares of £1 (\$4.86$\frac{2}{3}$) each and 60,000 ordinary shares of the par value of \$100 each.

In July, 1908, the Imperial Company took over the businesses of the American Tobacco Company of Canada, Limited, and the Empire Tobacco Company, Limited, which latter company was incorporated in 1898, and certain shares of The B. Houde Company, Limited. In consideration of the assets and businesses taken over from the American and Empire Companies and the shares of The B. Houde Company, the Imperial Company paid 711,504 preference shares of £1 each at a value of \$3,462,651.05, and 54,005 ordinary shares par value \$100 each, amounting to \$5,400,500; in other words, for the total capital issued of \$8,863,151.05 the Imperial Company received tangible assets to the value of \$3,251,970.67, shares of The B. Houde Company, Limited, National Snuff Company, Limited, and the Joliette Tobacco Company, Limited, all valued at \$396,379.42, and goodwill, trade marks, etc., \$5,214,800.96.

In October, 1908, there were subscribed for and fully paid in cash 110,414 preference shares amounting to \$537,348.13.

The present company, Imperial Tobacco Company of Canada, Limited, incorporated 1912, now has an authorized capital of $63,733,309, which is divided into 1,999,995 cumulative 6 per cent preference shares of £1 each (4.86\frac{2}{3}$), having a total par value of $9,733,309, together with 10,800,000 ordinary shares of a par value of $5 each, with a total par value of $54,000,000.

At the present date the paid up capital of the company consists of $8,030,000 preference shares and $47,255,160 ordinary shares, making a total of $55,285,160.

Shortly following its incorporations the present 1912 company took over the business and operations of its predecessor, the 1908 company, paying to the shareholders thereon 821,918 preference shares to the value of $4,000,000.93, together with 5,400,500 ordinary shares at a value of $27,002,500. The Imperial Company received in consideration of the aforementioned shares tangible assets to the value of $3,825,821.84, shares of The B. Houde Company Limited, the National Snuff Company Limited and the Joliette Tobacco Company Limited, to the value of $359,878.13, and trade marks, patents and goodwill to the value of $26,816,800.96.

In September, 1912, there was subscribed and paid for in cash 410,959 preference shares amounting to $2,000,000.47.

In September, 1913, there was a further subscription, paid for in cash of 417,123 preference shares amounting to $2,029,998.60.

In July, 1921, there was issued 400,000 ordinary shares par value $5 each, amounting to $2,000,000, to the British-American Tobacco Company, Limited, for and in consideration of trade marks and goodwill pertaining to their business in Canada.

In July, 1921, there was issued to Sir Mortimer Davis, Inc., 65,580 ordinary shares of a par value of $5 each, amounting to $327,900, for and in consideration of their holdings in the capital stock of Scales & Roberts Limited, and The H. Fortier Company Limited.

In September, 1921, there was issued 420,000 ordinary shares of a par value of $5 each to the value of $2,100,000, which were paid for in full by cash.

Over a period of time ending 30th September, 1927, the company issued as fully paid 1,299,080 ordinary shares of a par value of $6,495,400, in full settlement and consideration of the company's bonded obligation of $6,495,400; in other words, ordinary stock of the company was issued for bonds on a flat exchange at par value.

In October, 1928, the directors determined that a portion of the undivided profits that had been accumulated during the previous sixteen years should be capitalized, and for that purpose issued as fully paid, out of surplus, 1,517,032 ordinary shares having a par value of $7,585,160.

In a period terminating November, 1930, there were issued as fully paid 348,840 ordinary shares of a par value of $1,744,200 in full settlement and consideration of 11,628 ordinary shares of a par value of $100 each of The Tuckett Tobacco Company Limited.

To summarize, the present outstanding capital of the company consists of $8,030,000 in preference capital, $47,255,160 in ordinary capital, which was issued in consideration of $24,036,380.91 in tangible assets, $2,431,978.13 shares in various companies and $28,816,800.96 for trade marks, goodwill, etc.

Control of Retail Trade

Quoting from Pages 1200 and 1201 of the Minutes of the Proceedings and Evidence submitted to this Committee on Tuesday 24th April, 1934, wherein Mr. Sommerville is recorded as questioning Mr. McKay as follows:—

> Q. Yes, will you continue?—A. Just one more sentence under that heading: in the case of tobacco there are practically no middlemen to divide the spread. That is the point I am making under that heading, that there are no middlemen to divide the spread.

In the matter of tobacco the product is sold to the ultimate consumer through retail channels by the same parties—the same persons or companies—who buy the raw leaf.

Q. And the retail channels are owned and operated by the same channels?—A. To a considerable extent.

In response to the foregoing the Committee will no doubt be interested to learn that the only distributing channels which are owned or controlled by the Imperial Tobacco Company of Canada, Limited, its subsidiaries and associates, consist of the United Cigar Stores Limited, which sells directly to the consumer and whose total sales of tobacco products represent approximately $4\frac{1}{3}$ per cent of the total tobacco business transacted in Canada, and in addition certain Jobbing Companies, Scales & Roberts Limited, The H. Fortier Company Limited, James Kirk Limited and John Erzinger Limited, whose total volume of business which is sold to the retail trade represents less than $4\frac{1}{2}$ per cent of the total tobacco business in Canada.

Mr. McKay's "considerable extent" of ownership of the retail channels is actually $4\frac{1}{3}$ per cent of the total; the difference or whatever he chooses to call it, and being that "apparent minority" and over which we have no control, represents $95\frac{2}{3}$ per cent of the trade.

Mr. Factor and Colleagues

Dealing with questions raised by Mr. Factor and his colleagues as reported on Page 1316 of the Minutes of Proceedings of the 26th April, 1934.

First. As regards price spread on a 25 cent package of cigarettes, previously mentioned before this Committee, the price is divided as follows:—

Retailer..	$3\frac{3}{10}$c.
Jobber or wholesaler..	$2\frac{2}{10}$c.
Canadian Government in Excise and Sales Taxes..	$11\frac{1}{10}$c.
Manufacturer..	$8\frac{4}{10}$c.
	25c.

Professor Leitch stated that the growers would be happy if they received $1\frac{3}{4}$ cents per package, which, on the basis of his figuring, would be $23\frac{1}{3}$ cents per pound green weight to the farmer, which is equivalent to an increase of approximately 23 per cent in price to the grower.

In our opinion this is slightly higher than is advisable for the wellbeing of the tobacco growing industry, because of their having an exportable surplus and it being necessary for them to meet world (Empire) prices, as previously dealt with.

Again, such a high price for the leaf would, we fear, encourage more farmers to go into the raising of tobacco and would make it more difficult to restrict the amount to be raised in accordance with the requirements of the domestic and foreign markets.

Second. Statements dealing with points suggested by the second question have been filed, and we trust such statements will be treated confidentially.

Third. The ownership or control of the various Companies will be disclosed in the financial statements already submitted.

Fourth. Dealing with the method of jobbing and retailing. Our preference is to have the distribution of our products handled by jobbers, as indicated by the fact that 75 per cent of our business goes through this channel while 25 per cent is done direct with the Retail trade. The distribution system through which our products eventually reach the consumer is composed of the recognized jobbing and retail outlets. This system has been built up over a period of many years and experience has proven it to be not only the best method of effecting and maintaining distribution, but the most economical. We are firmly of the opinion that the jobber, or middleman, serves a very useful and necessary need.

Distribution costs on cigarettes and tobaccos through this method have been reduced to a minimum and this distribution machinery has been perfected in most areas to the point where it is to-day about as practical as could be expected.

There are approximately 57,000 retail stores in Canada handling tobacco products. Approximately 5,000 buy direct from us—the jobbing trade serves the balance.

The question of whether a retailer shall enjoy the privilege of buying direct from a manufacturer is answered usually by one or more of the following reasons:—

1. Merchandising ability.
2. Size of community to be served.
3. Class of establishment maintained.
4. Advertising possibilities.
5. Financial responsibility.

There are certain sections in Eastern Canada where the jobbing trade has never been properly organized to look after the distribution of our products, and, in such sections, we have for years effected the necessary distribution by selling direct to a considerable number of retail stores. For many years our policy has been to discourage this type of distribution in these particular areas and at the same time encourage the jobbing trade to take over this business. Some progress has been made especially in Quebec, and it is hoped this progress will continue.

We have depots located in Vancouver, Calgary, Winnipeg, Montreal, Saint John, and Halifax, from which our customers are served, and strictly sales offices in other large centres. Our outside sales staff consists of 139 men. The greater majority of these men spend 90 per cent of their time contacting with the retail trade and from the indirect retailers solicit orders for our products to be shipped to them through the jobbers. This is a service that not only is of vital interest to our brands but is greatly appreciated by the retail and jobbing trade.

Method of Advertising

The basis of our advertising efforts is through the medium of window dressing and this activity is supported in other forms of advertising, such as outdoor and indoor signs, newspapers, magazines, trade journals, radio programs, and poker hand premium cards. During the year 1933 we dressed approximately 75,000 windows. Our outside advertising staff consists of 113 men, mostly composed of window dressers. The principle upon which we obtain these windows is that of offering the dealer, free of charge, efficient service and up-to-date merchandising displays. The average retailer appreciates the value of this service and is anxious to obtain it at all times.

Fifth.—In reference to price maintenance agreements amongst retailers, jobbers and wholesalers. We recognize the existence of Jobbers' Associations and co-operate with these bodies and their members in maintaining jobbers' selling prices on our lines.

Attached are copies of the various associations' agreement forms.

The sole purpose of a Jobbers' Association is that a group of jobbers who sign an agreement amongst themselves to maintain manufacturers' selling prices, bind themselves to the decisions of a Committee elected from amongst themselves. If the Committee recommends that one of its members be sold by the manufacturers at jobbers' selling prices for a period of time (usually 30 to 90 days), the secretary of the association passes this ruling on to the manufacturers, they having previously agreed separately to support the association.

Usually the recommendation goes to the manufacturer in this form:—

> We recommend that .... jobbing house, be sold by the manufacturers at jobbers' selling prices for a period of 30 days.

The manufacturer then immediately notifies the jobber that on the recommendation of the jobbers' committee, goods will be invoiced to him during this period at jobbers' selling prices.

The effect of uncontrolled prices recently existing in the United States of America are pertinent to the present case, particularly so with regard to tobacco. Legal restrictions in recent years prohibiting manufacturers from controlling, in any way, the resale price of their products, has resulted in indiscriminate price cutting which has ruined thousands of wholesalers and retailers throughout the community, and due to keener competition amongst manufacturers who in turn were obliged to reduce their costs were consequently forced to buy cheaper tobaccos and so reduce the price of the primary producer.

The authorities in the United States now recognize the viciousness of price cutting and are taking the necessary steps to correct this evil. We are informed that it will still be some time before the whole scheme of price maintenance in the tobacco trade will be fully effected.

In contrast to the conditions prevailing in the United States we would direct your attention to conditions in Great Britain, where price control in the tobacco industry is recognized. In 1931 the Lord Chancellor, the Rt. Hon. Lord Sankey, and the Rt. Hon. William Graham, President of the Board of Trade, appointed a Committee "to consider present trade practices which result in withholding from particular retail traders supplies of goods in which they wish to deal or which prevent the resale of such supplies, except upon conditions imposed by the suppliers, and to report whether in their opinion all or any of such practices are detrimental to the public interest."

This Committee reported their findings on July 7, 1931, being in favour of price maintenance. Copies of their report may be obtained from His Majesty's Stationery Office in London and elsewhere.

Particularly in view of the contrasting conditions in the tobacco trade in the United States of America and in Great Britain, we respectfully direct the Committee's attention to this report, which has been very painstakingly and carefully prepared.

The conclusions of the Committee set forth in the above report favour price control, and for the sake of brevity I shall omit quotations therefrom, but suggest that many of the arguments adduced therein are applicable to conditions as they exist in Canada and support our contention that price control is essential for the ordinary marketing of merchandise, and ultimately serves the best interests of the primary producer, the manufacturer and the consumer.

We do not close an account on the recommendation of the Association or anyone else. As a matter of information the following is an excerpt from our letter dated April 21, 1927, addressed to our Vancouver office on this subject:

> We emphatically deny any insinuation or inference that we either put on or take off our list any firm at the direction of the Vancouver Tobacco Jobbers' Association or anybody else. If they wish to make recommendations to us we of course listen to them, but we make our own investigations and if we decide that any person is acting in a manner which we consider detrimental to the trade we logically conclude that he is also acting in a manner detrimental to our own interests. We have to satisfy ourselves of this, however, from our own investigations and we make our own decisions.

We have on several occasions closed wholesale accounts for not respecting our jobbers' selling price list and have discontinued selling certain retail accounts for price cutting.

We encourage jobbers in their efforts to have their customers maintain standard retail prices on tobacco products. We have also, along the same lines, encouraged retail associations and their members. We are just as much in

favour of standard retail prices being maintained as we are in the maintenance of jobbers' selling prices and our policy is not to deal direct with a retailer who refuses to maintain standard retail prices.

Price cutting on cigarettes and tobaccos if permitted to become general would in a short period of time wreck the credit stability of wholesale and retail tobacconists and force thousands of such merchants out of business. There are approximately 57,000 retail stores in Canada serving the consuming public with tobacco products. It is vitally necessary in the interest of the consuming public that this wide distribution be maintained.

There are many vicious evils in price cutting and we have not been able to discover one sound economic virtue, and neither the manufacturer, the dealer nor grower can escape the effect of such practices.

It is a well-known fact that the wholesale trade in general is at present carrying a heavy burden caused by prevailing economic conditions and the lack of co-operation and unsound competition. However, because cigarettes and tobaccos are among the few lines on which the wholesale trade is earning a margin of profit sufficient to conduct business properly and give service to their customers, this department ranks in most cases first in importance.

The wholesaler's gross profit on cigarettes and tobaccos is at present between nine per cent and ten per cent and surveys have proved that they cannot exist on a smaller margin. It is a recognized fact, however, that if the present Tobacco Jobbers' Associations were not functioning properly discounts of five per cent and greater would prevail; in fact this was the situation before the Tobacco Jobbers organized their associations. Furthermore, the Secretary of any of the Tobacco Jobbers Associations to which we refer will tell you that constant vigilance is required in order to keep jobbers from giving discounts.

The following is a schedule showing the additional volume a price cutting retailer has to do in order to earn the same amount of profit he would had he maintained standard retail prices. It will be noted from this schedule that it is utterly impossible for retailers as a body to obtain this extra business:

CHART SHOWING AMOUNT OF INCREASED BUSINESS NECESSARY TO JUSTIFY PRICE-CUTTING

When the regular profit on selling prices is	And the price cut is	The dealer must increase his dollar sales by the following percentage in order to maintain his dollar profits
15%	5 %	50%
15%	10 %	200%
15%	12½%	500%
16⅔%	5 %	43%
16⅔%	10 %	150%
16⅔%	12½%	300%
16⅔%	15 %	900%
20%	5 %	33%
20%	10 %	100%
20%	12½%	167%
20%	15 %	300%
20%	16⅔%	488%
25%	5 %	25%
25%	10 %	67%
25%	12½%	100%
25%	15 %	150%
25%	16⅔%	200%
25%	20 %	400%

While it is true that when a Retailer cuts a standard price, for instance from 25 cents to 23 cents he is for moment giving a benefit to the consuming public but in doing so he is wrecking the foundation of his business and sound economics prove that a legitimate retailer cannot operate on such a policy and remain in business unless his standard of living and that of his family and clerks is lowered to a deplorable extent.

Therefore, if price cutting were allowed to become general, the retailers who buy Direct from the manufacturers would have a tremendous advantage over the indirect retailers—in fact, could sell at prices lower than the prices the Indirect trade would have to pay for the same brands. This would mean the rapid elimination of all Indirect Retailers.

Such a condition, were it permitted to exist, would force us to take over the present distribution system as handled by the Wholesalers and sell Direct to all retail accounts. This would increase distribution costs rather than decrease them and our prices would be increased accordingly, and in a short period of time the consumer would again be paying the standard price.

There is another most important feature in this price cutting situation that cannot be overlooked. Due to the wide and rapid sale of cigarettes and tobaccos, cut price merchants would sell such tobacco products at cost as a loss leader to bring customers into their stores so they could sell them products on which they enjoy a large profit. This is not theory for such is already in practice on certain merchandise.

The present method of distributing cigarettes and tobaccos through wholesale and retail outlets would fail if there were not some system of control over the Wholesaler and Retailer as at present exercised by the various Associations and our price maintenance policy.

Dealing with complaints in the city of Toronto from wholesalers and retailers; in our opinion there are sufficient reorganized Jobbers in the city of Toronto—in fact, we are inclined to believe that there are probably too many for the good of the Wholesale trade. We have fifty-nine in that city. Competition is very keen amongst them though to the best of our knowledge they are maintaining our Resale prices.

Our policy with respect to whether or not we shall sell direct to a person who contemplates entering the wholesale business or who is operating such a business, is governed by several factors, the chief one being whether or not in our opinion the territory which the jobber proposes to cover can stand further competition without eventually bringing about a cut price situation. The reputation of the proposed or "going" concern is considered also.

We have had no complaints from the Retail trade in Toronto to the effect they were not receiving satisfactory service on our lines from the jobbing trade at recognized jobbers' selling prices. We have a large staff of sales and advertising men who are constantly calling on the wholesale and retail trade in the city of Toronto; in addition, we have a principal sales office located there and in our opinion our merchandising policy is in the best interest of the trade as a whole and the consuming public.

Before concluding I would like to offer one additional observation on the question of control of retail prices in its relation to the price paid to the primary producer.

Illustrative of the necessity for the control of retail prices and that these prices should show a reasonable margin of profit for everybody in the trade, is the fact that in discussing with the producers the possibility of arriving at an increased price to them for their flue-cured tobacco, it was necessary to consider that recently there have been placed on the market in Canada several brands of fine cut tobaccos retailing at around $1.00 per pound, which cannot be produced by manufacturers with any reasonable profit if they have to pay any

such price as Mr. Leitch mentioned, viz: $·233 per pound, average for their flue-cured tobacco. In our opinion the development of brands in any such price class is positively destructive to a reasonable stabilization of the tobacco business in Canada. We believe that under present conditions the minimum that can be considered a safe price for tobaccos of this class is a rate of $1.20 per pound to the consumer.

Briefly, if a minimum average price to the primary producer is to be established, it necessarily follows that a minimum price to the consumer must be established having some relation to the minimum price established for the producer.

If, for example, a minimum price is fixed for the primary producer and no relative minimum is fixed for the consumer, it therefore follows that some manufacturers will sell at a price not in relation to the minimum price fixed to the consumer, which, in effect, is price cutting; and if such sales are prosecuted with any degree of success it necessarily follows that the Imperial Tobacco Company will be forced to defend itself by not only meeting, but probably underselling its competitive manufacturers.

This should not be construed as, and is not intended to be a threat, but is merely a simple straightforward explanation of one of the most elementary problems in the economics of merchandising, and whereas it is reasonable to presume that a large manufacturer, by reason of his volume may be able to merchandise at a lower cost per unit than another manufacturer conducting a lesser volume of trade, it would then be merely a matter of time before the smaller manufacturer is eliminated by reason of the consequent impairment of his capital, resulting from his endeavours to maintain his trade conducted at an operating loss.

I therefore submit that if a minimum price to the primary producer is to be established at something in excess of the average price paid by the Imperial Tobacco Company for its flue-cured tobacco in 1933 and less than the price of 23⅓ cents attributed to Prof. Leitch, it is necessary that manufacturers should establish a minimum resale price of this class of tobacco at $1.20 per pound.

If, on the other hand, it is determined to establish a minimum price to the consumer of $1 per pound, then I submit to you in all sincerity that the maximum average price to the producer that could be accepted by the manufacturers with any degree of security would be something between 10 cents and 15 cents per pound to the primary producer.

In the submission of evidence to this Committee on the subject of Tobacco some reference has been made to the Marketing Act, which I understand is now receiving consideration.

I frankly hesitate to comment on this measure at the present time, but it occurs to me that as some corrective is essentially necessary to effectively preserve tobacco, if this commodity is to remain a factor as a natural product and a revenue producer to the primary producer, the manufacturer, jobber, retailer and National Revenue, the requisite control can no doubt be effected through the provisions of such legislation.

I freely admit that some injustice, real or imaginary, may be claimed as a result of the administration of such legislation, and therefore with all humility I respectfully suggest that consideration be given to the establishment of some source of appeal which, for want of a better name, may I describe as a Commerce Court or Board.

I believe that business can best be conducted through voluntary co-operation rather than by restrictive legislative enactments, and I feel that those interested in the particular trade or industry might submit their concerted opinions and views as to the regulation of their trade to such a Commerce

Court for confirmation, and that any person or persons having a just grievance should be permitted to appeal to such a Commerce Court for redress, but in order to relieve such a tribunal from the necessity of considering unjust and unreasonable complaints, that all appeals to such Court should probably be confirmed by some public body such as a Board of Trade or Chamber of Commerce or an Association representative of the trade concerned.

In closing I trust that which has been submitted may be found of assistance to the Committee in arriving at their conclusions, and I thank you for the opportunity of presenting the foregoing for your consideration.

TO THE BRITISH COLUMBIA TOBACCO AND CANDY JOBBERS ASSOCIATION

1107 Dominion Bank Building,

Vancouver, B.C.

WE, the undersigned..............................hereby voluntarily undertake and agree, as long as we enjoy the benefit of the manufacturers' list prices for tobacco, snuff, cigarettes, little cigars, or cigarette papers:—

1. Not to sell tobacco, snuff, cigarettes, little cigars or cigarette papers at prices less than those respectively named and set out in the jobbers' selling prices as furnished by Tobacco Manufacturers, from time to time.

2. Not to allow a discount in any shape or form on any of the lines above mentioned.

3. Not to allow any cash rebate to any parties purchasing from us or to any of their employees.

4. Not to give gratis goods of any kind which would be the equivalent of a discount.

5. Not to give a discount on any line of goods, part of which discount might be applied to any of the lines above mentioned; and when at any time giving a discount on other goods, the lines above mentioned will not be included, but such lines will at all times and under all conditions be sold at net prices with no discounts for cash or otherwise.

6. It is understood that tobacco prices will be F.O.B. Jobbers Warehouse, but Jobbers will have the privilege of prepaying freight to all competitive Rail Points, Powell River, and Prince Rupert, and Jobbers are not permitted to prepay or make allowance for Cartage charges from any Rail Points.

7. That all sales of these lines are to be on the above basis with no exception of any kind to jobbers or retailers.

8. That we will be responsible for the action of our travellers and employees, and agree that all infringements or irregularities by them of this agreement shall be the same as if committed by us.

9. That we approve of the appointment of the British Columbia Tobacco and Candy Jobbers' Association of an Investigating Committee, whose constitution and functions are set out in the endorsement on the back of this agreement. We agree to be bound by the decisions of that Committee, and that if at any time in the opinion of the Committee we fail to fulfil any of our undertakings herein, we shall lose the benefit of the Manufacturers' list prices for a period to be decided by the Investigating Committee, not to exceed three months for the first violation, and consent that manufacturers may act upon such recommendation as may be made by the Investigating Committee, and during such period we further agree not to purchase or accept any of the above lines from one or more of the companies, firms or individuals with which we are or may become associated.

10. This agreement is entered into for the sole purpose of bettering trade conditions in regard to the above mentioned lines.

Dated this.................. day of...................... A.D., 1934, at.............................. in the Province of.....................

Witnessed: . *Signed:*

....

FORMATION POWERS AND DUTIES OF INVESTIGATING COMMITTEE

(*a*) The Investigating Committee shall be appointed by the Association, and shall be composed of four (4) wholesalers to be elected at the Annual Meeting, or any Special Meeting called for this purpose, and shall remain in office until their successors are appointed.

(*b*) When any wholesaler's connection with the Committee ceases from any cause, his place shall be filled by vote of the remaining members of the Committee.

(*c*) The Committee shall make enquiry into all complaints of alleged violations of the agreement.

(*d*) The enquiry or investigation shall be made in such manner as may be approved by the Committee, who may employ an Agent or Agents to interview Witnesses and obtain information regarding the said complaints, and may act on the information so obtained, but before so acting the party alleged to have violated the agreement shall be afforded an opportunity of appearing before the Committee in answer to said complaint.

(*e*) If, in the opinion of the majority of the Committee, a violation of the agreement has occurred, the Committee shall make a recommendation in accordance with Clause Nine (9) of the Agreement.

(*f*) In case the party being investigated is represented on the then existing Committee, that member of the Committee shall, for the time being, withdraw and in the investigation of that particular case, be replaced by another wholesaler chosen by the remaining members of the Committee.

TO MANITOBA TOBACCO JOBBERS ASSOCIATION

(Same form applies to Saskatchewan)

We, the undersigned, ... hereby voluntarily undertake and agree, as long as we enjoy the benefits of the manufacturers' list prices for tobacco, snuff, cigarettes or little cigars:—

1. Not to sell tobacco, snuff, cigarettes or little cigars at prices less than those respectively named and set out in the jobbers' selling prices as furnished by Tobacco Manufacturers from time to time.

2. Not to allow a discount in any shape or form on any of the lines above mentioned.

3. Not to allow any cash rebate to any parties purchasing from us or to any of their employees.

4. Not to give gratis goods of any kind which would be the equivalent of a discount.

5. Not to give a discount on any line of goods, part of which discount might be applied to any of the lines above mentioned; and when at any time giving a discount on other goods, the lines above mentioned will not be included, but such lines will at all times and under all conditions be sold at net prices with no discounts for cash or otherwise.

6. Not to prepay freight on tobacco, snuff, cigarettes and little cigars for country shipments, but that such goods shall be sold only f.o.b. shipping point, except that it will be in order to prepay freight to competitive points or equalize freight charges with the nearest competing point to which goods are sold.

7. That all sales of these lines are to be on the above basis with no exception of any kind to jobbers or retailers.

8. That we will be responsible for the action of our travellers and employees, and agree that all infringements or irregularities by them of this agreement shall be the same as if committed by us.

9. That we approve of the appointment by Manitoba Tobacco Jobbers Association of an Investigating Committee, whose constitution and functions are set out in the endorsement on the back of this agreement. We agree to be bound by the decisions of that Committee, and that if at any time in the opinion of the Committee we fail to fulfill any of our undertakings herein, we shall lose the benefit of the manufacturers' list prices for a period to be decided by the Investigating Committee, not to exceed three months for the first violation, and consent that manufacturers may act upon such recommendation as may be made by the Investigating Committee and during such period we further agree not to purchase or accept any of the above lines from one or more of the companies, firms or individuals with which we are or may become associated.

10. This agreement is entered into for the sole purpose of bettering trade conditions in regard to the above mentioned lines.

Dated this.. .. .. day of 1932
at .. .. in the Province of .. ..

Witnessed: Signed:

.. ..

Formation Powers and Duties of Investigating Committee

(*a*) The Investigating Committee shall be appointed by the Association, and shall be composed of five (5) wholesalers to be elected at the Annual Meeting, or any Special Meeting called for this purpose, and shall remain in office until their successors are appointed. (A substitute member for each of the above to be appointed to act in the absence or inability to act of any of the regular members.)

(*b*) When any wholesaler's connection with the Committee ceases from any cause, his place shall be filled by vote of the remaining members of the Committee.

(*c*) The Committee shall make enquiry into all complaints of alleged violations of the agreement.

(*d*) The enquiry or investigation shall be made in such manner as may be approved by the Committee, who may employ an Agent or Agents to interview witnesses and obtain information regarding the said complaints, and may act on the information so obtained, but before so acting the party alleged to have violated the agreement shall be afforded an opportunity of appearing before the Committee in answer to said complaint.

(*e*) If, in the opinion of the majority of the Committee, a violation of the agreement has occurred, the Committee shall make a recommendation in accordance with clause nine (9) of the agreement.

(*f*) In case the party being investigated is represented on the then existing Committee, that member of the Committee shall, for the time being, withdraw and, in the investigation of that particular case, be replaced by another wholesaler chosen by the remaining members of the Committee.

By Mr. Ilsley:

Q. Does Mr. Miller want to say anything further about the reason why he lowered the price in 1930 and 1931?—A. I think that has been covered.

The WITNESS: Mr. Sommerville, on Friday when I was on the stand, there were points raised about the relationship that Mr. Harrison and Mr. Lea had, and I said I would prepare a statement. I would like to have the privilege of reading that statement at this time.

May 7, 1923.

Mr. CHAIRMAN:—When I was on the stand last Friday, you, your counsel and your Committee, were apparently under the pretty definite impression, from the evidence you had had, that the British-American Tobacco Company Ltd. and/or Mr. R. C. Harrison (I infer, perhaps with others) after forcing down the price of leaf tobacco in the United States to a very low figure, had sent Mr. T. L. Lea here, and with their, or his influence, had broken the price of flue-cured tobacco in Ontario. I think I denied this, but as you were persistent that I had not cleared up the situation, I asked for an opportunity to make a statement to-day.

I have had an opportunity of reading over that portion of the minutes covering this part of the situation, and while I find that I did deny this, I would like to now try to give you further details which I believe will substantiate it and satisfy you that such a feeling is not founded on facts. You will, of course, appreciate that for many of these details I have had to refer to the responsible heads.

The B.A.T. are very large stockholders in this Company and have two Directors on our Board, viz., Sir Hugo Cunliffe-Owen, Bart., Chairman of the Board of the British-American Tobacco Company, Limited with headquarters in London, and Mr. George Cooper, one of the Directors of the British-American Tobacco Company, with headquarters in Louisville, Kentucky. Also they naturally from time to time, have their officials, who are experts in various ends of the tobacco business, consult with us and discuss various matters.

Mr. R. C. Harrison, one of their Directors, in charge of their Leaf Department, spends considerable time in the United States each year where they buy large quantities of both flue-cured and air-cured types of tobaccos, and as Mr. H. P. Buell, Vice-President in charge of our Leaf Department, also buys flue-cured tobaccos in the States through Mr. Harrison's organizations, naturally there is considerable contact between these two gentlemen, and Mr. Harrison, as well as all the other Directors of the B.A.T. Co., is interested in the general welfare of the Imperial Tobacco Company of Canada.

After discussing the matter with all of our Directors, and Mr. Buell in particular, I can state positively that we have no knowledge or recollection of Mr. Harrison ever trying to instruct or in any way unduly influence us with respect to the prices that we pay for tobacco in Canada.

We had realized that the prices (taking into account in 1931 the quantity of tobacco that had been produced) should be lower than those paid for the previous crops, and in this connection believe that Mr. Harrison was of the same opinion.

There has always been a majority of the Directors of the Imperial Tobacco Co. Ltd. of Canada, located in Canada; the scale of prices to be paid is discussed with them by Mr. Buell and they decide amongst themselves as to what it should be; and with respect to the 1931 crop in particular, Mr. Harrison had nothing whatsoever to do with the quantities we purchased or the prices we paid, other than as I have previously mentioned.

As to the coming of Mr. Lea into our organization, and engaging in the buying of flue-cured tobacco in 1931, I might explain that we here in Montreal, in consultation with various of the B.A.T Directors, felt we should have someone in our organization to eventually succeed Mr. Buell—someone thoroughly experienced in leaf tobacco and particularly a man familiar with both Virginia and Burley types, as we use these various types of tobacco here, our principal usings being Virginia and Burley. It is not an easy matter to obtain a suitable man with this particular experience.

If you don't mind, might I interject there, as I explained to someone else, that just as it is a fact that wherever you find a marine engine you find a Scotchman; in the same way where you find tobacco you find a southern American—from below the Mason-Dixon line.

By Mr. Factor:

Q. As a matter of fact, most of the chief executives of your organization are American?—A. I have never compiled it, sir; I do not think that is true.

By Mr. Sommerville:

Q. There is Mr. Patterson?—A. He is a Canadian.

Q. He was formerly Mr. Duke's secretary, was he not?—A. He came from the United States orginally. Mr. Lane, a naturalized Canadian.

Q. Mr. Buell and yourself?—A. Yes.

Q. Mr. Townsend?—A. An Englishman.

Q. And who else is there?—A. Mr. Spafford and Mr. Lane, Canadians; Mr. Walters an Englishman, Mr. Skelton an Englishman; and Mr. DesRosiers, a Canadian.

This matter had been discussed several years prior to 1931, and Mr. Buell had selected from Mr. Harrison's organization Mr. T. L. Lea as the man whom he thought ideally fitted for this job and requested Mr. Harrison to let him come to our employ for this purpose. Mr. Harrison felt that he could not spare Mr. Lea from his organization and made several other suggestions, none of which suited, and eventually, in the fall of 1930, after persistent efforts on the part of Mr. Buell to secure Mr. Lea, Mr. Harrison felt that he could spare him, and Mr. Lea was engaged and started his employment with this company January 1, 1931, and proceeded to acquaint himself with conditions in Canada under Mr. F. R. Gregory who was then in charge of the buying of our tobacco in Ontario. Mr. Lea, although a special assistant to Mr. Buell, was operating in Ontario directly under the instructions to Mr. F. R. Gregory during the buying season of the year 1931.

Now, as to the reason for the lower price paid by us for the 1931 crop, than for previous crops, I would mention that the principal factors entering into the determination of prices to be paid are substantially as follows:

1. Quality of crop.
2. Consideration of the cost of production to the growers.
3. Volume of our own stocks on hand.
4. Our requirements in relation to the entire crop.
5. Volume of the crop and the domestic surplus in relation to our own requirements, involving the probable price to be paid by our competitors for their requirments out of such surplus.
6. Consequences of an exportable surplus.

As to:

1. The crop was good, generally speaking.
2. As to the cost of production, I can say that full consideration was given to this question. It is naturally a factor which varies accord-

ing to the yield and type of farm. It must not be forgotten that in 1931 the yield was abnormally high and the cost of production per pound would be correspondingly lower. I am sorry there are no official figures available as to our estimates for that particular year, but would draw attention to the figures given on pages 48 and following of our brief.

3. We had on hand, as of September 30, 1931, a total quantity of approximately 13,000,000 pounds Canadian flue-cured tobacco, which at that time was 26½ months duration.

4. Our usings were somewhere around five to six million pounds, although with a better stock of well matured tobacco, we saw prospects of gradually increasing these usings.

5. Our estimate of the crop produced was approximately 24,500,000 pounds—at least double the 1930 crop production—in face of our persistent advice to the planters, direct and through newspapers and Departments of Agriculture, not to over-produce.

6. With the large amount of this crop and the then small export market, it was quite evident that there was surplus production.

Having all these factors in mind, we felt that by paying a very high price we would be placed in an unfavourable position, as our competitors would then be enabled to obtain any part of balance at extremely low prices and sell manufactured goods on the market at very low prices, tearing down the whole price structure which would eventually reflect unfavourably on the farmer. We therefore determined that the top price of 30 cents with our average somewhere under 24 cents, all things considered, was a fair and proper procedure for the purchasing of the 1931 flue-cured crop.

Résumé of Methods of Purchases of Leaf Tobacco, Referring Particularly to Purchases of 1931 Crop, Norfolk District

As we require certain types of tobacco with requisite colour and necessary body and quality, our buyers know that any purchases of tobacco from the farmers in Ontario must be of a type especially suited to our particular manufacturing needs. A certain portion of every production of tobacco is very difficult to use; some is entirely unfit for use.

We have a staff of buyers, all of whom, each year, become thoroughly conversant as to the quality of tobacco that each individual farmer in their district has grown. These men are not only what is termed "buyers," but are experienced to a high degree in the actual growing of tobacco, and during the growing and curing season visit the farmer and give advice as to the growing and curing of his crop. During the month of July, by personal visit, they ascertain the acreage that has been planted by the individual farmer, and also as to how the tobacco is growing. When the tobacco has ripened sufficiently for the farmer to commence curing, these buyers again visit the farms once or twice a week so that they may see how each kiln of tobacco has cured out. Thus our buyers have a fair idea of what kind of tobacco the farmer should have for sale when the time for buying arrives.

It does not necessarily follow, of course, that when the time comes to purchase the tobacco that same may not have improved or deteriorated, as the case may be, in the intervening period. Factors which affect the quality of tobacco from a saleable point of view are neglect and carelessness on the part of the grower. This may be either in his method of harvesting, his method of curing, or of taking tobacco out of the kilns after same is cured, or his method of storing tobacco before delivering same to a redrying plant. Unless the farmer is careful, humid or rainy weather will cause the tobacco to become soft and damaged and lose colour, but such deterioration does not apply in the same sense as it does in fruit and vegetables.

When our buyers visit the farms first during the month of July, they record all information as to acreage and quantity in a book described as "Crop List Book." This information is entirely in regard to the condition of the tobacco as it stands growing in the field, and has nothing to do with regard to colour or quality of the tobacco when same is cured, nor with regard to prices at which the tobacco will be sold after it is cured.

During the visits, while the tobacco is being cured the buyer will list in a book known as "Grading Book," the name of the owner or grower, the number of acres, the estimated poundage, and how the tobacco looked to the particular buyer while same was growing. An approximate estimate of the grade of tobacco in each kiln is then entered in the grading book under the gradings "F" for fancy, "G" for good, "GM" for good medium, "M" for medium, "GC" for good common, "C" for common, and "P" for poor.

Of course this examination can only be very superficial as it is practically an impossibility for the buyer to inspect all of the tobacco hanging in the kiln due to its construction, or even after the tobacco has been bulked in the packhouse. Furthermore, the tobacco often changes in colour if left hanging in the kilns for a period of time, due to climatic conditions, and it further changes when it is taken out of the kiln into the packhouse where it is finally sold to the purchaser.

Whenever any perceptible change in the tobacco occurs, it automatically nullifies our classification in the Grading Book, and the tobacco is bought according to the grading in which it has finally developed. The Grading Book is used by our buyers merely as a guide as to where they can go to buy crops of different qualities. Our price range for different crops is not based on these Grading Books entirely. As previously explained, changes can and do take place in the colour and condition of the tobacco between the time the crop is classified in these Grading Books, and the time when the actual price is determined, therefore the buyer must examine the tobacco prior to making the grower an offer.

Before a price is determined on individual crops of tobacco, the buyer who has listed the quality of the tobacco in his grading book usually has another one of our buyers or a supervisor accompany him prior to making an offer for the crop, so as to have the benefit of the judgment of the other buyer or the supervisor, on the relative value of that particular crop. The matter is then discussed in our office and a tentative price determined there as to what we will pay for various representative crops before the buyer actually makes an offer and before the market opens.

By Mr. Sommerville:

Q. When that price is arrived at, is it not put in the top corner?—A. I do not think there is any standard of that at all.

Q. When you have arrived at that figure in consultation in the office, do you say it is not put down?—A. As far as I can make out there is no fixed rule, and there has been no fixed rule about that. You might term this book more of an individual record for the individual buyer who does it pretty well as he wants for his own information.

Q. My reason for asking is very definite, Mr. Miller. I find on this one book, which I picked up yesterday, that in the first day's buying the buyer—Wilson—paid for the crops which he bought the price that he had set in the corner.—A. That might have been, sir.

Q. And that after the visit of Mr. Lea to Montreal the same buyer paid for the crops, which graded at 24 and 25, 16 cents, 18 cents, and 15 cents.—A. As I say, as far as I can find out, there is no fixed way of their doing it at all.

Q. No, but if he is following a grade, Mr. Miller, and that grade is as you have indicated, and he has made his grade and his estimate, after he has made his grade and goes out and buys on those grades, he would follow through the second week on the same basis.—A. That is absolutely contrary to what we have found on examination.

Q. Have you changed any of those grades?—A. Yes, we have changed some of them. We have not changed them all, sir.

Mr. SOMMERVILLE: All right, we will go into that later.

The WITNESS: Very well:

> We pay highest prices for tobacco with bright colour and good quality, and require this type of tobacco for our particular needs, although in purchasing crops containing this type we naturally have to take other qualities as well. The matter of price on individual crops is based on the concensus of opinion of our various buyers, who compare the qualities available in their respective territories and the relationship between these qualities determines the price range from top to low.
>
> It might be stated that all of our buyers have an opportunity of visiting all of the territories in the district before a price is set on individual crops.
>
> Before the market opened in October, 1931, Mr. F. R. Gregory was called to Montreal during the last week of September, 1931, to talk over the matter of purchasing the 1931 crop of flue-cured tobacco with Mr. Buell and the other officials of the company. In view of the largely increased production, and the stocks of tobacco we had on hand, it was decided by the officials and Mr. Gregory who, at that time, in addition to being the Manager at Delhi and Leamington, was also a director of the Imperial Tobacco Company, that the top price to be paid for the 1931 crop would be 30 cents and the average price of our purchases should be under 24 cents. It was also decided that we would start buying during the week commencing October 5th. Mr. Gregory returned home on October 2nd, 1931.
>
> Mr. Lea left Montreal on Sunday night, October 4th, arriving at Delhi around noon October 5th. Messrs. Gregory, Lea and Taylor, local manager, Delhi plant, held a consultation in the offices of the Imperial Tobacco Co. at Delhi on Monday afternoon, October 5th, when a plan of procedure for opening the market the next day was decided upon. It was decided at that conference that the buyers would start out early the next morning, and confine their purchases for that day to crops of tobacco varying in quality and relative value from 24 cents to 30 cents. On that day we purchased 3,774,000 pounds (estimated) at an average price of 27.59 cents per pound. The buyers on the second day, October 7, were instructed to continue buying the balance of the most desirable crops which were left in their territories, and on this day they purchased 910,400 pounds at an average price of 26.20 cents per pound. Buying continued on the 8th, 9th, and 10th, our buyers purchasing tobacco of good quality, but not of as good quality as they purchased on the first two days. As the buying progresses the average quality, to a certain extent, becomes lower, and naturally the average price also becomes lower.
>
> On that day we started to purchase tobacco in the Norfolk district, namely October 6th. Mr. Lea accompanied one of our regular buyers, Mr. J. B. Wilson. Mr. F. R. Gregory bought in conjunction with his son, Mr. H. T. Gregory. Messrs. Lea and Wilson purchased 627,000 pounds at an average price of 27.79 cents. These two men worked the entire day purchasing tobacco. Mr. F. R. Gregory and his son worked half

the day and purchased 491,000 pounds of tobacco at an average price of 27.04 cents. Attached hereto are statements showing the individual crops purchased by Messrs. Lea and Wilson on that date, and the individual crops purchased by the Messrs. Gregory. These statements also show prices paid for the individual crops purchased, as well as the estimated quantities of the individual crops. The statements further show the total poundage of tobacco purchased by both buying parties, and the average price per pound for the total purchases.

As previously stated, Mr. Buell telephoned Mr. Gregory and Mr. Lea on learning of the first day's results, reminding them that to get the average below 24 cents they would have to buy more freely of lower grade tobaccos.

Mr. Lea returned to Montreal on Saturday, October 10th, and reported to Mr. Buell, vice-president and manager of the Leaf Department, who was lying sick in the Royal Victoria Hospital, Montreal.

It might also be added that while Mr. Lea was in Montreal, the Delhi organization continued buying, and on October 10th, which was Saturday, they purchased 213,000 pounds at an average price of 19.12 cents, and on Monday, October 12th, they purchased 585,000 pounds at an average price of 18.55 cents. Mr. Lea was not at Delhi, or conversant with operations on either of these two days, only arriving there about noon on Monday, October 12th.

On Tuesday, October 13th, we purchased 1,213,700 pounds at an average price of 19½ cents, that being from crops remaining unsold in the various territories, and classified as "medium" crops. From October 14th until October 22nd the buying continued in a limited way. On October 22nd we discontinued buying tobacco due to the fact that we had practically completed purchasing our requirements out of this crop in the Norfolk district.

On November 16th we received a request from the Imperial Tobacco Co. (of Great Britain and Ireland) Ltd. to let them have 1,000,000 pounds of toobacco (farmer's weight). We allotted them 1,000,000 pounds of tobacco out of our purchases which had been made prior to that date. They were only interested in tobacco of bright colour and good quality suitable for cigarette purposes. The allottment of this 1,000,000 pounds of tobacco to the Imperial Tobacco Co. (of Great Britain and Ireland) Ltd. left us short of that quantity for our own domestic requirements, and to complete our requirements and make provision for the added requirements of the Imperial Tobacco Co. (of Great Britain and Ireland) Ltd. we purchased 816,500 pounds of tobacco of various qualities from November 9th to December 31st at various prices, as per statement.

The CHAIRMAN: Well, it is pretty nearly one o'clock. I think we have had enough this morning. We will meet at 3.30 this afternoon.

The Committee adjourned at 12.55 p.m. to resume at 3.30 p.m.

AFTERNOON SITTING

The committee resumed at 3.30 o'clock.

GRAY MILLER, examination resumed.

By Mr. Sommerville:

Q. I think you have a statement that you read this morning, Mr. Miller?—A. Yes.

Q. May I have a copy of that, if you have one to spare?—A. Yes.

Q. I will just look it over, and if there are any questions to be asked, at a later date, we may ask them?—A. All right.

Mr. SOMMERVILLE: I would like, for the time being to proceed with the question of the crop purchases in 1931 and 1932, with Mr. Lea.

T. L. LEA, called and sworn.

By Mr. Sommerville:

Q. Mr. Lea, what is your position in the Imperial Tobacco Company?—A. I am manager of the leaf (Ontario) department.

Q. You are manager of the Ontario Leaf Department?—A. Yes.

Q. When did you become manager of that department?—A. In 1932, I think.

Q. When in 1932, before or after the crop?—A. Before the crop.

Q. Who had been manager of that department before you?—A. Mr. Gregory.

Q. When did you come to Canada?—A. January 1, 1931.

Q. Where had you been prior to that?—A. I was supervisor of purchases for the Export Leaf Tobacco Company.

Q. The Export Leaf Tobacco Company, you say?—A. Yes, in Georgia, South Carolina, and also buying in eastern Carolina; and when I would leave eastern Carolina, go to Kentucky, where I had charge of buying operations in Kentucky.

Q. For the Export Leaf Tobacco Company?—A. Yes.

Q. For whom did the Export Leaf Tobacco Company buy?—A. They buy for all the different companies all over the world.

Q. For the British American Tobacco Company?—A. Yes.

Q. You then, were supervisor for their buying operations?—A. Yes, in Georgia.

Q. From Georgia north to Kentucky?—A. Yes.

Q. And your buying in Georgia was of flue-cured tobacco?—A. Bright, flue-cured tobacco, yes.

Q. That is done on the auction basis?—A. Yes.

Q. It is all sold on the auction floor?—A. Yes.

Q. As I understand it, the growers send their crops in in piles or baskets?—A. Baskets.

Q. In baskets of 100 pounds?—A. It runs from 100 to 250 pounds.

Q. They send them in in baskets of from 100 to 250 pounds?—A. Yes.

Q. Already graded?—A. Yes.

Q. They are all on the floors in long buildings?—A. Long warehouses.

Q. The auctioneer proceeds down the piles?—A. Yes.

Q. And a group of buyers follow him?—A. Yes.

Q. They buy a lot at a time, don't they?—A. A basket.

Q. A basket at a time?—A. Yes.

Q. And that is knocked down to the highest bidder?—A. Yes.

Q. That is quite different and distinct from the barn method of buying?—A. Somewhat, sir.

Q. What is that?—A. Quite a difference, yes.

Q. How long were you engaged in that? How many years had you been engaged in that kind of buying prior to coming here?—A. I started in 1911. Before 1911 I did buy some tobacco in the country in South Carolina. That was for my own account, though.

Q. That would be in 1911?—A. No.

Q. Before 1911, you say?—A. Yes, 1909 was when that took place.

Q. Would that be bought by the barn method?—A. Yes, by the barn method.

Q. You would come in and buy?—A. Yes.

Q. I understand the farms in Georgia and South Carolina do not require to be equipped as fully as our farms?—A. I don't see very much difference. Some of the best-equipped farms I have ever seen were in eastern Carolina.

Q. I understand they don't require greenhouses?—A. No, they don't require greenhouses.

Q. I understand they don't do any steaming of their plant beds?—A. Well, some of the farmers down there do steam their plant beds, or burn their plant beds.

Q. You say they burn their plant beds?—A. Yes.

Q. That is for what purpose—burning their plant beds?—A. In other words, it does away with the grass that comes up with the plants. That is the reason they burn them. Some of them steam them down in eastern Carolina.

Q. With that experience, you came to Canada in January, 1931?—A. January 1, 1931.

Q. And you began your operations in buying in Simcoe?—A. Delhi.

Q. In Delhi?—A. Yes.

Q. With headquarters at Delhi?—A. No, I had headquarters in Montreal.

Q. Well, I mean in the buying season?—A. Yes.

Q. When did you arrive in the buying area for the opening of the market in 1931?—A. I arrived there on the fifth.

Q. On the fifth of what?—A. October 5.

Q. October 5, 1931?—A. Yes.

Q. What was your position at that time with the company?—A. To assist Mr. F. R. Gregory in buying.

Q. To assist Mr. Gregory in buying—A. Yes.

Q. —the crop of 1931?—A. Yes.

Q. Who had charge of the buying operations in 1931?—A. Mr. F. R. Gregory.

Q. Who settled the policy for the buying of 1931?—A. Well, that was settled in Montreal.

Q. By whom?—A. By the executive committee.

Q. By whom?—A. Well, Mr. Buell and Mr. Miller, and those people.

Q. Yes?—A. Mr. Patterson also; I believe Mr. Patterson was president at that time.

Q. What part did you take in settling that policy?—A. Well, they consulted me, sir.

Q. They did?—A. Yes.

Q. What knowledge had you at that time of Canadian tobacco conditions? —A. Well, I had made a number of trips up in the Delhi section, and I inspected a lot of crops.

Q. By the way, Mr. Buell does not buy crops out in the field, does he?—A. Well, I don't know, sir. He has not bought any since I have been up here.

Q. At any rate, you started in with Mr. Gregory?—A. Yes.

Q. You say that he was in charge of operations for 1931?—A. Yes.

Q. Is that a complete statement of the situation?—A. I think so.

Q. Were you not really there representing Montreal, and supervising the situation?—A. Well, I was doing my best to assist him; I will say that.

Q. Did that assistance take the form of supervision? I don't know what you may call assistance. But is that the fact, that while he was nominally the head, you were the man who was carrying the instructions from Montreal? —A. Conveying instructions from Mr. Buell to Mr. Gregory.

Q. To Mr. Gregory?—A. Yes.

Q. And to other buyers; were you conveying instructions to other buyers? —A. Mr. Gregory directed all the other buyers.

Q. If there was a panic in 1931 in the purchase of the crop, then was the fault due to Mr. Gregory or to you?—A. Well, it appears that he was in charge, sir.

Q. Well, I have just asked you the question, though?—A. There was no panic, as far as I know; not when it was opened.

Q. Well, how soon after it was opened did the panic develop?—A. How soon?

Q. Yes, because you limited your answer. You say there was no panic when it opened. How soon afterwards did it develop?—A. Well, the farmers were very much discouraged when they were receiving 28 cents, on the first day, because they had been accustomed to getting 40 cents the previous year.

Q. You, being familiar with conditions in the United States, can probably tell us why there was this reduction in buying, from 40 cents to 30 cents in the opening of the top for the 1931 crop. Why the reduction?—A. I could not say as to that.

Q. You could not?—A. No.

Q. You can't give this committee any light on that subject at all?—A. The only way I can answer it, sir, is that prices in 1930 were entirely too high. You had a larger crop.

Q. Who said they were too high? The Imperial Tobacco Company here, before your advent, paid 40 cents. They had been buying crops here for twenty years. Who said they were too high?—A. Well, our people thought they were too high.

Q. Your people thought they were too high?—A. The Imperial Tobacco Company, yes.

Q. Is it not a fact, Mr. Lea, that for the first time New York stepped into the situation and said the price was too high?—A. No.

Q. Was that the criticism of Mr. Harrison, that the price paid in 1930 was too high?—A. Not to my knowledge, sir.

Q. Didn't you ever hear that Mr. Harrison had criticized the purchase of the 1930 crop at 40 cents?—A. Possibly I have heard him say that.

Q. Yes; and it was as a result of that criticism, I suggest to you, that you were sent up to Canada?—A. No. I don't think so at all.

Q. What instruction or information was given to you by Mr. Harrison?—A. None whatever.

Q. Before the opening of the market in 1931?—A. None whatever.

Q. You know him pretty well?—A. Know him very well.

Q. You talked with him about 1931 prices?—A. No, I didn't.

Q. You didn't discuss it with him at all?—A. Not at all, sir.

Q. The conversations, then, were entirely with Mr. Buell?—A. As far as I know, sir.

Q. At any rate, you started out to buy on the basis of a top of 30 cents?—A. Yes.

Q. And you did buy?—A. Yes, I bought pretty heavy.

Q. Yes, bought pretty heavy the first day; and you accompanied Mr. Wilson—A. Yes.

Q. On that day you bought how much?—A. Six hundred and some thousand.

Q. Six hundred and some thousand pounds?—A. Yes.

Q. More than anybody else?—A. Yes, and paid the highest price.

Q. You paid the highest price, on the opening?—A. Yes.

Q. And the average was 27 cents?—A. 27.79, if I recall correctly.

Q. Yes, opened at 30 cents instead of 40 cents, and got down to 27.79 the first day?—A. Yes.

Mr. MONTGOMERY: No, that is not fair.

The CHAIRMAN: Excuse me, Mr. Montgomery, I see no unfairness about it.

Mr. MONTGOMERY: Saying that the top was 30 and got down to 27·79; that is not fair.

The CHAIRMAN: Mr. Montgomery, I cannot allow you to interrupt the proceedings.

Mr. MONTGOMERY: After all, the company is not represented here, nobody is; and for that reason the committee should see that the facts are fairly brought out.

The CHAIRMAN: I don't see that there is anything wrong with the question at all. Just repeat your question, Mr. Sommerville.

By Mr. Factor:

Q. I understand that the top price was 40 cents in 1930, and the top price was 30 cents in 1931?—A. That is correct.

Mr. SOMMERVILLE: The first day.

By Mr. Factor:

Q. The first day it was 27·79?—A. Average price

Mr. SOMMERVILLE: Yes, that is the average price. That is what I say.

Mr. FACTOR: No, I think you said top price.

Mr. MONTGOMERY: That is my objection.

Mr. SENN: I think we agreed that witness would not be represented by counsel. If they are to be, we will have to change our rule.

The CHAIRMAN: No, they are not going to be.

By Mr. Sommerville:

Q. I said that starting with the top price, opening on Monday— A. On Tuesday, sir.

Q. Well, on Tuesday, you got down that day to 27·79 for your purchases?—A. Yes.

By Mr. Young:

Q. Did you buy any at 30 cents that day?—A. As well as I recall, there are four crops.

Q. Four crops at 30 cents?—A. Yes.

By the Chairman:

Q. How many pounds?—A. I think you have that statement.

Mr. SOMMERVILLE: I have the statement here somewhere.

The WITNESS: We submitted that statement to you.

By Mr. Sommerville:

Q. Perhaps you can tell me. When you had the list of the best crops before you, and starting out with Mr. Wilson, the entire number of crops you bought the first day at 30 cents was four?—A. I think that is correct.

Q. Four?—A. Yes. In fact, I might call your attention to the fact that I bought five crops at 30 cents, but one was cancelled. Canadian Leaf had bought it at 29½ cents, and I paid 30 cents for it. Our contract book shows that.

By Mr. Young:

Q. Then you cancelled that later because they had bought it ahead of you?—A. Yes.

Q. Was the farmer agreeable?—A. No, he was not agreeable, but we never interfere with other contracts.

Q. They all observe that rule, do they?—A. All agree to that rule, sir. I think there is sixty some thousand pounds in that crop. The Canadian Leaf will bear that out. I bought 112,000 pounds at 30 cents that day.

By Mr. Sommerville:

Q. Out of six hundred and some odd thousand pounds of your purchases; and that was on the first day?—A. Yes.

Q. Setting out for their choicest crops in the district with Wilson—A. Well, I thought they were the choicest crops.

Q. Well, you had had thirty years' experience, and on that day you were assisted by having with you Wilson and.—A. Just Mr. Wilson.

Q. And he had his record of the crops, that day, that you were buying?—A. Yes.

Q. Just look at the crop that you bought from A. Vuylsteke on the first page of this sheet, Mr. Lea?—A. How far down the sheet?

Q. Pretty near the end of the sheet, about six from the bottom?—A. Vuylsteke, yes.

Q. You bought that crop, and you paid 27 cents for it?—A. Correct, sir.

Q. I observe in Mr. Wilson's book that he had put the note on his book 26 to 27 cents as the value of the crop?—A. I could not say. Those pencilled figures don't indicate anything in the world to me.

Q. They don't indicate anything to you?—A. No. You will also find further books that hadn't any pencilled figures at all on.

Q. I am just talking about this one?—A. I understand that.

Q. I want to see what they do indicate, because it is the first one I have picked up, just at random. Vuylsteke's figures at any rate, show the number of kilns, don't they?—A. Supposed to.

By the Chairman:

Q. "Supposed to." Do they or don't they?—A. Sometimes they do and sometimes they don't.

Q. That is not a very satisfactory answer. It is intended to show the number?

Mr. Lane: That is what the book shows. It is not a correct or accurate summary at all.

The Chairman: Well, his answers "Supposed to", and "It may and it may not", mean nothing.

Mr. Lane: All you have to do is add the kilns to the total and see that it is wrong.

Mr. Sommerville: All right, we will see.

By Mr. Sommerville:

Q. Just look at that page, Mr. Lea, because I am going to get to the bottom of the Vuylsteke purchase, just as a basis?—A. All right, sir.

Q. On that page, at the top of the page, you will find "34 acres, good". Do you see that wording at the top?—A. Yes, sir, "34 acres, good". I would think that would mean while it was growing in the field.

Q. Quite. I think that is true.

By the Chairman:

Q. The black book shows 34 acres?—A. 34 acres.

By Mr. Sommerville:

Q. In other words, Mr. Wilson has got into the kiln book or this—what do you call this book?—A. Supposed to be a grading book. I don't know whether it is.

Q. All right; he has got into the grading book the entries that he has had on his crop book, and at the top he says: "34 acres, good"?—A. Yes.

Q. Is that 36,000 pounds?—A. Yes.

Q. And just over that in red pencil are the figures "26, 27"?—A. Yes.

Q. You see that?—A. Yes.

Q. Underneath that he has the name August Vuylsteke, Norwich, R.R. No. 4?—A. Correct.

Q. And under that he has a list of grades?—A. Yes.

Q. Or initials?—A. Yes.

Q. "F" for what?—A. Fancy.

Q. "F" for fancy, and nothing opposite that?—A. Nothing.

Q. "G" for good?—A. Correct.

Q. And opposite that, "5 kilns"?—A. Correct.

Q. Then "GM" for good medium, is that right?—A. Yes.

Q. And opposite that, "12 kilns"?—A. Yes, sir.

Q. And below that, "M" for medium?—A. Correct.

Q. And opposite that "10 kilns"?—A. Yes, sir.

Q. And under that, "C" for common, and he has "3 kilns"?—A. Yes.

Q. That makes a total of 30 kilns of flue-cured tobacco on that man's farm?—A. I presume that is what it means.

Q. These numbers added together make thirty?—A. Yes.

Q. And the thirty can have no other reference, can it?—A. I would not think so; I really don't know, to be frank with you, sir.

Q. Well, that is what it signifies to you, does it not?—A. It appears that way, yes, sir.

Q. I have added the kiln numbers, the numbers on the pages, and that seems to be the figure.

By the Chairman:

Q. Is there any doubt about it?

Mr. Lane: Yes, there is. There are books there that show—

Mr. Sommerville: We are talking about this book.

By the Chairman:

Q. I mean this one recital. Please give us one straight answer. Is there any doubt about it?—A. Yes, there is a doubt about it.

By Mr. Sommerville:

Q. What is the "30"? It either refers to the top price or else it refers to 30 kilns?—A. It may refer to the top price. It may refer to the kilns. I could not say, sir.

Q. All right, I will leave it that way. I will just leave it that way.

By the Chairman:

Q. And may I ask this question with regard to the addition of these kilns that you have approved of as Mr. Sommerville read them out: Would you add them up and then we will know if it is right?—A. They add to thirty.

Q. They do add to thirty, do they?—A. Yes.

Q. Well, there is a singular synchronization there?—A. Some of these figures appear on some books and on some they don't.

Mr. Sommerville: We are only dealing with this book.

Mr. Young: If that "30" referred to the top price, it ought to be on every page of the book. Is it? That was the top price for that day.

Mr. Factor: That "30" referred to the kilns.

The Chairman: We are trying to get the witness to admit that it referred to the kilns, but he won't do it. He says, however, that it adds up to thirty.

Mr. ILSLEY: He suggests a reason why it may not refer to kilns, and that is that in some other pages it referred to something else.

The WITNESS: That is it exactly.

Mr. SOMMERVILLE: Wait a minute.

The CHAIRMAN: Let us please stick to this one thing.

By Mr. Sommerville:

Q. Let me get this clear. Can you point out any page in this whole book where it does not refer to the number of kilns?—A. I would have to check it up.

Q. Would you look at the opposite page? Perhaps we will take it this way—

The CHAIRMAN: I would not waste time on it. Let us stick to one thing and finish it.

Mr. ILSLEY: I don't know why the witness is not permitted to say why he has any doubt about it.

Mr. LANE: Ask him to refer to the page of Birdsall Brothers.

The WITNESS: Refer to the page of Birdsall Brothers and see if it has it.

Mr. SOMMERVILLE: I will come to that in a few minutes.

Mr. LANE: That is the point you are making now.

Mr. SOMMERVILLE: We will come to that. If I add 99 and they come to the number, although there may be an exception, I am not going to take the exception for the rule in this book.

Mr. LANE: It is not the exception.

Mr. SOMMERVILLE: We will find out if it is or not. On the opposite page you have got 23 kilns shown under Hagerman, the opposite page to Vuylsteke.

The CHAIRMAN: I can't see for the life of me what prejudice there is to your cause or your interests, Mr. Lea, to admit that. It seems so completely satisfactory. I don't know what your object is. It would save a lot of time.

The WITNESS: It is 23 there.

By Mr. Sommerville:

Q. Yes, on the page following that, the kilns add up to 23?—A. I have not counted them.

Mr. LANE: What is the name?

Mr. SOMMERVILLE: Vandenburger.

The WITNESS: That is correct.

By Mr. Sommerville:

Q. And on the page opposite Vandenburger they add up to 27 under the name of Jack Hunt?—A. That is correct.

Q. Let us go back to Birdsall.—A. All right, sir.

Q. Under Birdsall, how many kilns are there?—A. 14.

Q. And there is no figure opposite to that?—A. No.

Mr. LANE: Yes.

The WITNESS: There is 25 down there.

By Mr. Sommerville:

Q. Well, there is no figure opposite to the 14 kilns; it is blank?—A. Yes, it is blank. The same things applies all the way through, some are added and some are not, just as I said a while ago.

Q. And the figure 25 at the bottom of the page, I suggest to you, refers to the price, because there is no price on Birdsall's at the right hand corner?—A. I could not say. As I have said before, I didn't even know they had any price on their books, sir.

Q. All right. We will stick to Vuylsteke. The Vuylsteke figures at the top of the page show that crop of 30 kilns was worth 26 to 27 cents?—A. Those figures that he has don't mean anything to me.

Q. They don't mean anything to you. I will show you what they mean in a few minutes. Look farther on at the blank page at the back where he has an index as to how he arrives at the grades—

Mr. LANE: Can we borrow your book?

Mr. SOMMERVILLE: Perhaps you have not got it. Don't lose the place for me. Just tell me what are those figures on that blank page at the back of the book, or towards the back of the book that I handed to you, of Wilson's book. You have got that, have you?

Mr. LANE: Yes, that is correct.

By Mr. Sommerville:

Q. Now, on that blank page are these figures, F. 36?—A. Yes.

Q. G. 32?—A. Yes.

Q. GM 28?—A. Yes.

Q. And M 25?—A. Yes.

Q. And all other 20?—A. Yes, sir.

Q. Now then take Vuylsteke's figures on that basis. I will give you the sheet so that it is very simply compared, and you find that Vuylsteke had no fancy whatever?—A. No, no fancy.

Q. He had five "good" figured at 32, that would be 160; and he had 12 "good medium" at 28, 336; and he had 10 "medium" at 25, 250; and 3 "common" at 20, sixty; and that totals up to 806, and divided by thirty, gives you 26.9?—A. I could not tell sir, I did not even know these figures were in the back of the book.

Q. You did not know?—A. No.

Q. Well, that is the key to the whole book?—A. It will still give him a top price of 36 cents.

Q. Now Mr. Lea, that is not something you thought about yourself, Mr. Lane suggested that. There was no fancy in the whole book from beginning to end, so there was no top price of 36. This is the key by which he arrives at his price? —A. I could not answer that question, I do not know anything about the key.

By the Chairman:

Q. You were with Mr. Wilson?—A. I was with him, yes; but I did not pay any attention to the book.

By Mr. Sommerville:

Q. Did you not consult with him as to what was the price or the value of the kilns that you were buying?—A. I left it entirely with him.

Q. Then you were not doing the buying, he was doing the buying?—A. Of course he was.

Q. Certainly, he was buying according to his book?—A. As far as I know I do not know whether he was buying by his book or not.

Q. Well, let me have that sheet back and we will put that in?—A. I did not even know he had a key.

Q. We have got the key to the other books.

Mr. YOUNG: I do not understand where you get that 32 cents top price in 1930.

Mr. SOMMERVILLE: It is an arbitrary key by which the various buyers settled, for their own satisfaction, what was to be the value of a crop. Some may have 30, and the top price will be 30 between medium and good, and that is top price; but they pay something above for fancy, and something below.

Mr. YOUNG: That is a premium.

Mr. SOMMERVILLE: Yes. In arriving at their own estimate of what is the price; and having done so they put a pencil price on the book you see to guide them in the purchase.

Mr. YOUNG: Did they ever pay this premium?

Mr. SOMMERVILLE: Oh no; it is an average for the whole, and the average arrived at on that basis was 26.9.

Mr. FACTOR: You mean, it is a means of calculating an average.

Mr. YOUNG: I understood you to say that there is a 32 cents there; that 2 cents represented the premium that the buyer thought that tobacco was worth over the market.

Mr. SOMMERVILLE: No, I do not think that. I say, Mr. Young, in arriving at an average price which he will estimate for that crop he fixes in his own mind the top price as between medium and good, and then something above that and something below that for the various grades; and he notes the number of kilns in each grade which will enter into the calculation, and he arrives then at this figure of 26.90, being the price that ought to be paid for the whole crop on the average.

The WITNESS: That system won't follow all through, will it?

By Mr. Sommerville:

Q. Yes, with all of these it will follow through?—A. All of those books?

Q. Yes?

Mr. LANE: Not all of these books, Mr. Sommerville.

Mr. SOMMERVILLE: I am talking about this book.

Mr. YOUNG: It looks as though the head buyer is questioning counsel for the committee.

The WITNESS: It is all new to me, sir.

Mr. SOMMERVILLE: Oh Lord love me, he says this is all new to him.

Mr. YOUNG: I do not see the way they fix the top price between medium and good; why do they not fix the top price on fancy?

Mr. ILSLEY: Because there will be no crop that is fancy.

The CHAIRMAN: Gentlemen, let us proceed with the examination of the witness.

Mr. KENNEDY (*Peace River*): It seems to be like the premium on hogs.

The CHAIRMAN: Mr. Sommerville, go on with the examination.

By Mr. Sommerville:

Q. Whatever is the reason for it, that is the system, Mr. Young; what I propose to show is that this system has been followed in the purchase the first day and the second day, but after a certain visit to Montreal that system rapidly changed and the 24 cent crop was bought for 15 cents; and that is the object.

The WITNESS: I can also point out to you, sir, after the trip to Montreal I bought 68,000 pounds at 24.60.

Mr. SOMMERVILLE: And there is a reason for that, Mr. Lea, which I will point out to you later.

The WITNESS: All right, sir.

By Mr. Sommerville:

Q. Now, Mr. Lea, the Vuylsteke purchase was made on these figures of Mr. Wilson; he says from 26 to 27 cents on the corner of the page?—A. That is what he has there, sir.

Q. And he purchases that crop at 27 cents?—A. That is correct, sir.

Q. Now then, look at Vanderburger and you will find the same thing?—A. Is that on the opposite page or is it over further.

Q. Over further. Now, Vanderburger has 27 kilns, and the 27 kilns——

The CHAIRMAN: Is that right; you are not getting an answer.

By Mr. Sommerville:

Q. Is that right?—A. I am trying to find out, sir.

Q. Just the page beyond Vuylsteke?—A. Which one, Mr. Sommerveille?

Q. It is the very next page?—A. 27 acres of it.

Q. 27 acres "good," 27,000 pounds; and in the top of the page "25 to 26 cents" is the pencilled note of Mr. Wilson; and the number of kilns is 23, and you bought that crop for 26 cents?—A. Yes.

Q. 27,000 pounds?—A. That is correct, sir.

Q. Now, when you went to Montreal and came back again the following week, were you with Mr. Wilson then?—A. No, sir.

Q. You were buying alone then?—A. That is the only day I was with Mr. Wilson.

Q. You were buying alone then?—A. No, with another buyer.

Q. With another buyer; and did you give instructions then to Wilson as to what he was to pay for the crop?—A. I did not, sir.

Q. Who gave the instructions?—A. I could not tell you, sir.

Q. What instructions did you bring back from Montreal at the end of the week?—A. Instructions that I brought back from Montreal?

Q. Yes, as to keeping down the price?—A. I conveyed Mr. Buell's message, that we had agreed before we left Montreal to arrive at an average of less than 24 cents, we had to continue to buy some common or medium tobaccos at a much lower price to arrive at that average.

Q. Yes, and was it not a fact that you had to buy not common and medium, but good tobacco, to get down to that price?—A. That is a matter of judgment.

Q. Judgment. Well, we will see how good that judgment is. Now, look at Jack Furlong and Brother, October 20?—A. Is that just over?

Q. That is 8 to 10 pages before that?—A. I have it.

Q. Fifteen acres "good," ten acres "medium rough"?—A. Yes.

Q. 25,000 pounds altogether; and the price in the top corner in pencil, 24 cents?—A. I see the figure there. I do not know whether that indicates price or not.

Q. But you see a figure which is similarly placed to the others?—A. Placed similarly to the others, yes.

Q. And out of that there are 18 kilns; and you pay for that 15 cents?—A. Mr. Wilson did, I did not.

Q. Mr. Wilson paid 15 cents, for what had been his estimate of 24 cents when making up the books?—A. I can't say, sir, I could not say whether he had that estimate or not.

Q. Then look at Hagerman—two or three after that?

Mr. ILSLEY: Mr. Sommerville, does the key indicate that 24 cents will be the value of that crop?

Mr. SOMMERVILLE: The key indicates that 24 would be the value of that crop, the same key applied to the same grade.

The CHAIRMAN: In the same book.

Mr. SOMMERVILLE: It indicates that the value of that crop was 24 cents.

Mr. ILSLEY: Then there is no doubt in the world that the 24 figure refers to the value of the crop.

By Mr. Sommerville:

Q. Now, look at Hagerman?—A. I haven't found it yet.

Q. It is four or five after the one I gave you—Furlong.

Mr. LANE: Who is the other name on it?

Mr. SOMMERVILLE: This says H. Hagerman is the owner, and there is Lafollette.

Mr. LANE: Twenty-three kilns, is it?

By Mr. Sommerville:

Q. You have got it now; and H. Hagerman that page reads: 27 acres good, 30,000 pounds, owner H. Hagerman, 23 kilns graded; and the price indicated at the top of the page is 24 cents, and you paid that for it; is not that right?—A. I could not say.

Q. The figure at the top indicates 24?—A. Not as far as I know, sir; I do not know about these figures.

Q. There is a figure 24?—A. Yes, there is a figure there.

By Mr. Factor:

Q. I just wanted to ask him about that, I have no doubt in my own mind about it; did you not discuss with Mr. Wilson the estimate price for the crop? —A. I was not with him when this crop of tobacco was bought.

Q. You did discuss that with Mr. Wilson, didn't you?—A. I could not recall. I do not remember.

Q. But you went around with Mr. Wilson, didn't you?—A. Only on the first day, sir.

Q. Yes, and did you not discuss with Mr. Wilson the estimate of the price you were to pay?—A. Sure, I discussed it with him.

Q. And you did not arrive at a certain figure as an estimate?—A. Sure.

Q. And you did not know that Mr. Wilson put that estimated figure in his grading book?—A. No, sir, I did not.

By Mr. Ilsley:

Q. I imagine that when you and Mr. Wilson were talking together about what you were going to say that he would take his little book and would say, Now we can afford to pay this man 24 cents?—A. That does not apply all the way through, sir; only the opening day.

Q. When you were talking about how much you could afford to pay, he would surely pull out that little book?—A. We always look at the tobacco, not at the book.

Mr. SOMMERVILLE: Then there was not any object in keeping the book.

The CHAIRMAN: What was the object of the Imperial Tobacco Company keeping a large staff going all summer visiting these farms and keeping track of the growing crop?

Mr. SOMMERVILLE: And then going four weeks in succession and looking at the kilns.

The WITNESS: To locate the most desirable crop.

The CHAIRMAN: And getting a record on all the crops.

The WITNESS: Supposed to be a record; but there is such things as buyers grading altogether different. I have seen a crop—

By the Chairman:

Q. Is this, or is it not, an estimate of the officers of the company as to the condition of the crop?—A. Is this an estimate.

Q. On the condition of the crop reported in these books?—A. It is supposed to be, sir.

Mr. SOMMERVILLE: And by the accredited buyers and inspectors of the Imperial Tobacco Company.

The WITNESS: Sure, but all buyers make mistakes.

The CHAIRMAN: We know that, every human being does that; but why quibble.

Mr. LANE: He is not attempting to quibble, Mr. Chairman; simply this is foreign to the common practice of buyers, it will not be substantiated in any other product.

By Mr. Sommerville:

Q. Don't bother about the methods of other buyers, we will get that later if we can't get that here. I asked Mr. Gregory to come here and he refused to come, but we have subpoenaed him?—A. Maybe he could tell you more about it.

Q. Now, Hagerman's shows 27 acres "good"; 30,000 pounds; kilns all graded—23 kilns, and if you work these 23 kilns out by the key that is in the book you get a figure of 24 cents?—A. No, 25 cents.

Q. You are right, you get a figure of 25 cents; and they put at the top 24 cents; and you bought that crop for 18 cents---Why?—A. I can't tell you, sir, I was not with Wilson.

Q. Wilson was following instructions, and this was the day after you came back from Montreal?—A. Possibly if I had been with him he would not have bought at 18 cents.

Q. He would have bought at less?—A. No, possibly more.

Q. Did you reprimand anybody for paying less?—A. I have raised the price of lots of buyers.

Q. In 1931?—A. Yes, sir, I certainly have.

Q. I think Mr. Gregory was in charge of that buying? At any rate, on the day after you got back from Montreal, this was bought for 18 cents?—A. I think your record shows that.

Q. And Wilson's estimate was 24 cents. Now look at Roseheart, that is toward the middle of the book?

Mr. LANE: Did he read, that the crop had been bought at 14 cents? I don't see it.

Mr. SOMMERVILLE: If you don't I will show it to you on the record. I cannot tell you the number of the sheet, but here it is, and look at the next one.

Mr. LANE: The next one to it.

By Mr. Sommerville:

Q. Settle on that Hagerman, you paid 18 cents for?—A. 18 cents for 30,000 pounds.

Q. Now look at Roseheart while it is there and agree on the price that you paid for him. What amount did you pay Roseheart. Look at the sheet?—A. Roseheart 16 cents.

Q. Roseheart you paid 16 cents on the same day; and you bought 32,000 pounds from Roseheart of Aultsville at 16 cents; and if you work it out on the grading in the book according to the key which Wilson has provided, the price that Wilson would put on that is 24 cents?—A. I could not tell you on that key, sir, I did not even know it was there.

Q. Can you tell me why a 24 cent crop was bought for 16 cents?—A. No sir, I cannot tell you, because I was not there when he bought it; possibly I did not agree it was a 24 cent crop.

Q. All right, you will work it out and then if you do not agree we will see what it is?—A. I could not say it until I see the crop.

Q. Then you can't agree even if it works out on this basis?—A. As I told you, sir, the key did not mean anything to me, I did not know the key was in the book until you brought my attention to it.

Q. I think there are a lot of other things that you did not know were there. This statement is an exhibit showing the working out of that. At any rate, it is quite apparent Mr. Lea that the price of that crop dropped very rapidly after your return from Montreal?—A. From Wilson's book it appeared that way.

Q. From all of your purchases?—A. No sir, our average is more than that; we can show that.

Q. What would you figure the first week?—A. The top price of 30 cents.

Q. You got down, your average the first week was how much?

Mr. Lane: Is that the first day, or the first week.

Mr. Lea: The first day was 27.59.

By Mr. Sommerville:

Q. No, it is the first week I am asking about. But, all right, we will take it on the first day and follow through that week. Take it on the first day, Mr. Lea?—A. 27.59.

Q. On your second day?—A. 26.20.

Q. Your third day?—A. 23.02.

Q. And the fourth day?—A. 20.26—that was October 10.

Q. That is, in four days you got your average of 27 down to an average of 20?—A. You must remember that we always try to buy the best crops on the first day—in the first three days.

Q. But even excepting that you did not pay your top price the first day?—A. No two crops are exactly alike.

Q. Now then, what was the average the next day?—A. We bought 54 per cent of the total in the first few days.

Q. In the first week you bought 57 per cent?—A. No, 63 per cent.

Q. All right, the first week you bought 63 per cent; what price did you get down to on the fourth day?—A. 19·12 it seems here, I was not there that day.

Q. Where were you that day?—A. I was going to Montreal, sir.

Q. Yes, and then?—A. On Monday, the 12th, I was right back at Delhi, I was at the factory that afternoon—we were opening the following day and I did not go into the country.

Q. What was the average on the Monday that you arrived back from Montreal, that is the sixth day?—A. 17·86; on the 13th it was 19·90.

Q. And then the next day?—A. 16·67.

Q. And the next day?—A. 16·26.

Q. And the next day?—A. 17·25.

Q. And the next day?—A. 17·44.

Q. And the next day?—A. 16·71.

Q. And then the next?—A. Up to here we got 90 per cent of our purchases in the Delhi district.

Q. In the Delhi district, you had not transferred your operations to Leamington then?—A. No, sir.

Q. And the next day?—A. I gave you the 20th, didn't I?

Q. Yes. Now, the next day?—A. 15·60.

Q. And the next day?—A. 16·89.

Q. And the next day?—A. 23·23.

Q. What date was that?—A. On November 11th.

Q. Now, you entered your purchases for a time on the 21st October; on the 21st, when you ceased purchasing what was the average price you paid on that day, October 21st?—A. 15·60. Our average up to that date was 23·09.

Q. All right, we will get that in. You had 15·60 when you ceased on the 21st. You did not buy the following week?—A. Yes, sir.

Q. For that week, and after that week, you did not buy?—A. It is split between the 21st and the 29th, we resumed; we began buying in Leamington.

Q. On the 9th?—A. Yes, sir.

Q. And between these dates you had received an order for a million pounds from the Imperial of Great Britain?—A. Yes, sir.

Q. And having received that order you went out and bought an additional amount, you bought altogether about 800,000 pounds?—A. Approximately.

Mr. KENNEDY *(Winnipeg)*: Can you place the date of that order, Mr. Sommerville?

Mr. SOMMERVILLE: The order was received during the early part of November.

By Mr. Sommerville:

Q. Apparently there was not very much of a surplus then when you found it necessary on receiving an order for a million pounds to go out and buy another million pounds?—A. Yes, sir, there was lots of tobacco, lots. And there is a lot of tobacco you have reference to, there is the tobacco that I bought from the Lake Erie Tobacco Company. I had never seen this tobacco and I had been advised that it was the best tobacco grown in the north, which I found contrary to my judgment.

Q. And that was Mr. Kingstone's tobacco you went down and saw?—A. I purchased that in November and paid as high as 27 cents.

Q. Yes, I know you did. After ceasing your buying operations then—from the average prices that you paid on your day-to-day purchases, you stopped at 15·60. Now, what did you start in again at?—A. November 9, 16·89; November 10, 23·22; November 11, 16·42; November 12, 14·58; November 13, 23·96; November 21, 21 cents; November 28, 25 cents; December 2nd, 22·80.

Q. Now, Mr. Lea, I suggest to you that the condition has become generally worse in the buying season of 1931, and when you got down to 15·60 the growers appealed to the Department of Agriculture in Ontario and they announced they were going to help the growers, and that was the reason that the market stiffened?—A. Was that 19—.

Q. 1931?—A. I thought that was in 1932.

Q. In 1932 they gave the money; but in 1931 you had the direct announcement that the Department of Agriculture would intervene; I suggest to you that that is the reason you increased the price?—A. It did not have any affect on me.

Q. It did not have any affect on you?—A. No, sir.

Q. All right, then, what was the reason? What was the reason you went from 15 cents to 23 cents?—A. Because we found better tobacco in the field than we thought was left there.

Q. If that is so, why did you buy "24" for 24 cents instead of paying 16 cents and 18 cents, during the first week according to Wilson's book?—A. I have stated to you, I was not with Wilson when he bought it.

Q. You knew what was being done by your buyers right along the line?—A. I did not have every buyer?

Q. Did you not bring back instructions from Montreal that they must keep down the price, that the average was too high, and they must reduce the price paid?—A. I just stated that we had to get under 24 cents average; and we had to buy more common and medium tobaccos to bring it from where we started at.

Q. And I suppose you would not resist the temptation to buy good tobacco at a price that would bring it down to 23 cents?—A. I never fail to buy good tobacco, I like good tobacco; but if you have got common tobacco you have always got common prices for it.

Mr. FACTOR: What kind of tobacco is this "24 cent estimate" that is sold for 18 cents?

By Mr. Sommerville:

Q. Yes?—A. I do not recall ever seeing that crop, sir.

The CHAIRMAN: The record will show it.

By Mr. Sommerville:

Q. You are talking about common tobacco: let me show you what you bought in that crop in 18 cents -and that should be common tobacco, shouldn't it?—A. I think that is pretty high for common tobacco, 18 cents.

Q. Let me tell you what you got: you got 5 kilns of good tobacco, you got 12 kilns of good medium tobacco, you got 10 kilns of medium tobacco, and you only got 3 kilns out of 30 of common tobacco; and for that you paid 18 cents? —A. Whose crop?

Q. I am speaking about Hagerman's crop.

Q. You are not buying any common tobacco for 18 cents?—A. Evidently Mr. Wilson thought it was common if he did not pay over 18 cents.

Q. You do not expect us to believe that.

By Mr. Sommerville:

Q. Do you mean to tell me, after Mr. Wilson had examined every kiln and written the grade in the book that he went out and thought he was buying common tobacco?

Mr. FACTOR: Do not try to give an explanation for that.

Mr. SOMMERVILLE: I do not think there is any use in following that any further.

The CHAIRMAN: Not a bit.

Mr. SOMMERVILLE: Well, I have only taken one book, and it was picked up at random. The others, I am told, figure out on different scales, and different methods, but they arrive at the same result.

WITNESS: Here is one that has not got anything at all on it.

By Mr. Sommerville:

Q. No, it has not, but there is another basis for arriving at it?—A. No other basis in this book.

Q. You do not know it, at least?—A. No.

Q. Some of the growers are in a position to know, apparently, what the indices are in the book that show us what the values are. Now Mr. Lea, when you came back from Montreal, I am told that you announced to the buyers that you were going to show them how to buy tobacco, and they must buy it cheap?—A. I don't remember.

Q. Is that true?—A. That is without foundation. I do not remember anything about it. I might have sir, but I doubt seriously whether I did say it.

Q. What would you say to them, after coming back from that conference in Montreal; in your own language, what would you say?—A. I have just stated to you, sir, that we have to buy common and medium tobacco, to arrive at an average under 24 cents.

Q. When you found they were buying 27 kilns out of 30 that were better than common, did you suggest for a moment that the farmer be given a squarer deal?—A. Surely.

Q. Hagerman, for instance?—A. As I said, I did not see the Hagerman crop; I do not remember anything about it.

Q. You knew they were buying better than common for the price they were paying?—A. I hope so.

By the Chairman:

Q. Is it not clear that Mr. Wilson had noted 24 cents as a fair price for good medium and medium kilns?—A. His book appears that way.

Q. It appears that way?—A. Yes.

Q. That is a reasonable assumption. The fact is he paid 18 cents?—A. Yes, sir.

Q. And it included good, good medium and medium?—A. Before the tobacco is got out, sir.

Q. Well—A. This tobacco has to be taken to the plant.

Q. The notation of the price is on the book?—A. That is only a guide, sir, that book there.

By Mr. Sommerville:

Q. It was a pretty good guide for 20 years, but not a good one in 1931?—A. I was not here before that.

Q. Thank goodness for that. I say that from the bottom of my heart, Mr. Lea. I want to ask you did you— —A. I was not asked—in other words, I did not ask to come up here either, sir.

Q. I would like to know who sent for you and the growers would like to know.

Mr. LANE: The Imperial Tobacco Company sent for him.

Mr. SOMMERVILLE: I see, Mr. Lane.

Mr. LANE: That is the answer.

By Mr. Sommerville:

Q. Did you, in Tillsonburg, walk into the hotel where your buyers were gathered, with a sample of tobacco in your hand, and say to your buyers: "What do you think of that?" Wait a moment until I finish.—A. All right.

Q. You can answer as you wish. "What do you think of that"? And they said, "It looks like 22 cents." And did you say to them, "I just bought that from a boy who is putting himself through college for 14 cents, and you fellows had offered him 24 cents, and he refused it, and he took his medicine like a man." —A. I do not remember ever making such a statement as that.

Q. Will you swear you did not say it?—A. Yes, I will swear it.

Q. Mr. Robbins, will you step up here? Mr. Lea, you just step aside for a moment, and we will clear up one thing at a time?—A. I do not recall it.

The CHAIRMAN: You said you did not say that.

Mr. SOMMERVILLE: Did you say that?

The WITNESS: No sir, as far as I remember, I did not say that.

Mr. KENNEDY (*Winnipeg*): That is a different answer. First you said you do not remember; then you said on oath you swear you did not say it. These are two different statements.

The WITNESS: Well, I do not recall it at all.

Mr. KENNEDY (*Winnipeg*): That is another story.

By Mr. Sommerville:

Q. You may have said it?—A. I might have said it, but I do not recall it at all. I do not think I did say it sir. Furthermore, I do not remember ever taking any samples to Tillsonburg; of course I usually take samples to the office.

Mr. KENNEDY (*Winnipeg*): I draw the attention of the committee to this: He does not change his statement until there is a witness called to give direct evidence.

Mr. SOMMERVILLE: Just sit down, Mr. Robbins, because it may be necessary to have your evidence.

By Mr. Sommerville:

Q. Then, may I put this to you, Mr. Lea: Did you make this statement: "I do not see why these tobacco growers drive up to see me in a Buick car; they have got no business doing so"?—A. No, sir.

Q. "I will put them back on their feet"?—A. No, sir; I do not recall ever saying that.

Q. Will you swear you did not?—A. Yes, I will swear I did not say that.

Q. Did you say, "I will have the tobacco buyers going back driving horses and buggies"?—A. No, sir, I did not say so.

Q. Can you tell me—

Mr. SENN: Tobacco growers.

Mr. SOMMERVILLE: Did I say tobacco buyers?

Mr. SENN: Yes.

By Mr. Sommerville:

Q. Did you say any such thing about the growers?—A. No, sir, I never.

Q. Can you give me the slightest reason why anybody should repeat such a thing on you?—A. I cannot tell you, no sir. You can hear most anything up in that country.

Q. Can you?—A. You bet your boots you can.

Mr. KENNEDY (*Winnipeg*): Is it he does not remember saying it, or that he swears positively he did not?

By Mr. Sommerville:

Q. Do you remember saying that, or is it just that you do not remember saying it?—A. I will swear I did not say it, sir.

Q. You will swear you did not say it?—A. Yes.

Q. Did you say to the tobacco buyers, as you brought in your samples, "I will teach you fellows how to buy tobacco," as you showed them the 25-cent tobacco that you had bought for 15 cents?—A. I might have said that, sir, at the factory, but not at the hotel.

Q. I do not care where you said it. Is that what you said to your buyer?—A. No, sir, not 25 cents at 15.

Q. 22 cents at 15 cents?—A. Well, 15 cents is all it is worth, if I paid 15 cents for it.

Mr. FACTOR: That is not an answer.

The CHAIRMAN: You do not deny having said it?

The WITNESS: What is the question?

Mr. ILSLEY: I do not understand that question.

By Mr. Sommerville:

Q. Did you go into your crop buyers and show them tobacco which they said was worth 24 cents, or 25 cents, and say to them, "I will show you how to buy it; I bought it for 15 cents"?—A. I recall showing some tobacco to Mr. Gregory at the plant in the office, and I think he priced it at 18 cents, 20 cents, 22 cents. I said I bought it for 18 cents.

Q. That is a new one. I will have to ask Mr. Gregory about that one, but I have heard a good many others. Is there anyone else you showed it to?—A. Not as far as I remember.

Q. Was it not your practice during the whole buying season to take those samples to your buyers and impress upon them that they must buy that tobacco on your basis?—A. I did that, certainly, to get uniform buying throughout the district.

Q. Uniform buying down to your level; is not that a fact?—A. That is unfair, sir. I had to carry out instructions, you see.

Q. Whose instructions, Mr. Gregory's?—A. Mr. Buell, and assist Mr. Gregory.

Q. I beg your pardon?—A. And assist Mr. Gregory in buying.

Q. Now, then, let us clear up the 1931 matter. There was a good deal of complaint that year, was there not, about the buying methods and the prices being paid?—A. I think it is still being complained of.

Q. There was in that year, 1931?—A. As far as I know. I understand there is considerable.

Q. Was there in 1931?—A. I understand so.

Q. And did it become acute in 1932?—A. No; I think the tobacco was bought nearer to the value in 1932.

Q. Although you bought it on an average of 17 cents nearer to the value, the value of what?—A. The value of the product, considering the quality sir.

Q. The quality?—A. Yes.

Q. The finest quality ever produced in Canada was produced in 1932?—A. I think so; the best I have seen up here.

Q. The better the quality the lower the price?—A. It appears that way sir, due to over production.

Q. No. You were saying it was bought according to quality? Do you want to change it now and say it was bought according to quantity?—A. On account of so much tobacco being up here.

Q. Which of them do you want to stick to, the one or the other?—A. Quality.

Q. Quality?—A. And quantity too.

By Mr. Ilsley:

Q. What top price were they working on in 1932?—A. 24 cents down, and in 1932 we bought four and a half millions around 20 cents. We tried to hold the price until some other buyers came in and put their price to 18, and naturally we had to come up to buy along with them.

Mr. SOMMERVILLE: You must have been ruined by those other buyers?

By Mr. Factor:

Q. Did you receive any complaints from the farmers about the 1931 crop and the low price you were paying them—you personally?—A. No, sir, I did not, personally.

Q. They never appealed to you about receiving a low price?—A. Never came to me about it.

By Mr. Sommerville:

Q. Mr. Lea, when you went in to buy from the farmer and his wife, did you find that the women actually wept at the price you offered?—A. One of my buyers was telling me of one of those Belgian women who wept when she was offered 28 cents for it the first day. Naturally they like to get the top price or—

Q. I am asking you about your experience?—A. Possibly I have seen some of them weep.

Q. Did you ever buy any tobacco from those Belgian women?

Mr. Factor: You do not think the Belgian woman is a human being?

Witness: Yes, I do, I think they are the best people up there. They are very good growers.

By Mr. Sommerville:

Q. Did you get to the point where you said to the husband, "You will have to have your wife go into the house—"?—A. I might have said that.

Q. "—because I cannot stand her weeping."—A. No, I never like to see a woman weeping.

Q. There is something at any rate, that touches your heart. Now then, in 1932, the crop was ready a couple of weeks earlier than usual by reason of the new type that was being grown?—A. Yes.

Q. And it was cured and ready for harvesting, is that right?—A. Yes.

Q. And did you, at that time, delay the opening of the market with a view to depressing the market?—A. No, sir, I did not.

Q. And when you did open the market, you opened it at a top of 24 cents?—A. Correct.

Q. On the first day the average price was 22·40 cents?—A. Correct.

Q. The second day you got it to 20·90 cents?—A. Correct.

Q. The third day to 18·54 cents?—A. Yes, sir.

Q. The fourth day to 16·2?—A. That is the statement.

Q. On October 31, to 16·04 cents. Did you consult with Mr. Harrison about the price of the crop at that time?—A. No, sir.

Q. Did you consult with him at any time?—A. No, sir.

Q. Did you discuss the matter with him at any time?—A. No, sir.

Q. On the 31st October did you talk with Mr. Harrison about the price of the crop?—A. Possibly I did that, for he was in Canada at that time. He made several visits up to Delhi.

Q. As a matter of fact, Mr. Lea, Mr. Harrison registered at Tillsonburg with you that day, did he not?—A. I think so. He made several visits up there.

Q. He came up with you and Mr. Buell on the 31st October?—A. I think that is correct.

Q. On that day. You had then the market open for five days with a top of 24 cents, and you had got it down to 16 cents, and on November 1, 16·61 cents, and that was the day that Mr. Harrison went away, was it not?—A. I presume so.

Q. And the next day you went out and celebrated it by bringing it down to 15·51?—A. No, it was not a celebration; it was a sad state of affairs.

Q. And the next day you got it to 14·02?—A. The statement shows that that is so.

Q. And the next day to 13·42?—A. That may be true.

Q. And the next day 14·22?—A. That may be true.

Q. The next day 13·64?—A. That may be true.

Q. We will finish this list. Next day 13·64 and the next 14·58; is that right?—A. I think that is so.

Q. Now, there was another practice indulged in in connection with the buying of the crop. Is it not a fact that you sent men out to buy the crop and then they came in. Instead of sending them out for the day to buy throughout the day, you sent them out to buy a crop here, and a crop there, and then they came in and you sent them out on another day to buy a crop here and there?—A. I have a policy for that. On the opening day sales, I remember we bought 1,000,000 pounds.

Q. Yes, you did, you bought 1,300,000 pounds.—A. About 22 cents, was it not?

Q. Twenty-two cents.—A. Yes. Then the next day, as I recall it, we bought around 2,000,000 pounds.

Q. Yes, 1,900,000 pounds. Your memory is better on figures than it is on some facts.—A. 21 cents.

Mr. LANE: Figures are facts.

WITNESS: Figures are facts.

By Mr. Sommerville:

Q. On the next day you bought a million and a quarter?—A. Yes.

Q. From then on you bought small quantities?—A. Some of our friends cr competitors started to buy at 18, and naturally it weakened the market.

Q. You had been buying on the second day of your buying at 18 cents?—A. There were bought some tobaccos, I think, on the first day at 7 or 8 cents.

Q. You got your average on the second day or the third day, at 18 cents?—A. It depends altogether on the quality of the tobacco.

Q. But Mr. Lea, you were just opening the market for the finest crop that had ever been grown?—A. Mr. Sommerville—

Q. On the fourth day you got an average of 18 cents?—A. The biggest that was ever grown, and besides that, when you open the market, you find some common tobacco in the best crops there.

Q. You were talking now about buying poorer quality on the 3rd day, but I am suggesting to you that you had not touched 10 per cent of the best of the crop?—A. Well, sir, you can buy some common tobacco in the best of the crops up there. In a good crop at 24 cents, you will get some tobacco out of that crop —we took some at about 4 or 5 cents.

Q. You see, there was a 29,000,000 pound crop?—A. We bought 31 per cent in the first three days.

Q. Four days really?

Mr. LANE: Three days.

By Mr. Sommerville:

Q. You had a 29,000,000 pound crop or something like that, of the finest quality tobacco, and in the first three days you had about 4,500,000 pounds purchased?—A. Something like that.

Q. You do not want this committee to believe that on the third day the reason for your drop was because you were buying a poorer quality of tobacco. It was because you were buying a good quality tobacco at a lower price?—A. Not as good tobacco as we bought on the first day. We tried to take up the finest crop. Some crops up there, the frost had killed the tips, and these are the crops we went after the first day.

Q. You had then adopted the policy of buying a few crops?—A. We formulate the policy before we open the market, of buying so much each day. We knew when we started we could not lift but so much of the tobacco. Every buyer does the same thing, sir.

Q. I know, but in 1931 you bought 63 per cent the first week?—A. I was not directing the buying that year.

Q. You bought most of it on the first day you did buy? Is it not a fact that if you prolong your buying over five or six weeks' time, you soften the market, and make it easier— —A. It is a matter of opinion.

Q. What is your opinion?—A. No.

Q. Is that your opinion, or Mr. Lane's, that he has passed on to you?—A. That is my opinion.

Q. What is the effect then of prolonging the purchases over a period of six or seven weeks on a big crop? Is that done to steady the market or to reduce the market?—A. It is to steady it. Supposing we were to come up and do the whole purchases for that year in a weeks' time, and get out of the market, where would the rest of the crop of tobacco go?

Q. Well— —A. The other buyers knew we could not handle all that crop of tobacco.

Q. There was enough for everybody?—A. That is right.

Q. That effect would depend upon what you opened the market at?—A. Somewhat, but you will notice our average, and notice there is—

Q. I do notice your average, and it is the lowest average ever paid for a crop of tobacco, and it was the finest crop of tobacco ever grown in this country.

Mr. Lane: Others had paid a lower average.

Witness: Mr. Sutherland's report states that.

The Chairman: Mr. Lane, we have no objection whatever to the witness referring to you for information about documents, and so on, but the witness must answer for himself.

Mr. Sommerville: You never bought tobacco in your life.

Mr. Lane: No, I have not.

Mr. Sommerville: Let us talk to the man who has been buying tobacco; he is an expert.

Witness: Not buying; I just want to correct you.

Mr. Sommerville: I do not think it was buying.

Mr. Factor: You were the head buyer?

Witness: In 1932, yes, sir, I was in charge of the buying.

By Mr. Sommerville:

Q. Then Mr. Lea, as a result of this panic that did exist in the tobacco fields, you had meetings of the Chambers of Commerce, you had wires to the Prime Minister of Canada and to the Department of Agriculture in Toronto, all protesting— —A. I understand so.

Q. You would be thoroughly familiar with what was going on?—A. No, sir, I took all my time to look after our business.

Q. It didn't bother you in the slightest what they were doing?—A. No, sir, it did not.

Q. Then, the Ontario government stepped in, did it not?—A. Yes, sir.

Q. What did they do?—A. They did not do anything as I know of; they did not buy any tobacco that year?

Q. What did they do?—A. They did not buy any tobacco, to my knowledge, in 1932. They have some tobacco on hand now.

Q. Did they then definitely agree to support the farmers?—A. That is the opinion I have through the newspapers, sir.

Q. As a result of that, is it not a fact that the price went up on the 9th November from 14 cents, on the 12th November from 15 to 17— —A. Not necessarily, sir. It depends altogether on the quality of tobacco that was being sold at that time.

Q. By this time, Mr. Lea, everybody was in, and they were buying at a very much lower price, everything was going down?—A. Yes.

Q. How do you account for the increase in the price to 17 cents on the 12th November, and then to 18 cents on Monday, the 14th?—A. The only answer I can give you, sir, is quality.

Q. Quality?—A. Sure.

Q. The quality was improving?—A. I do not hesitate to tell you sir, I bought crops of tobacco that the farmer said he was offered 14 cents for it, and I could have bought it for 16 cents, and I gave him 18 cents late in the season.

By Mr. Factor:

Q. I thought you said the best quality was purchased at the opening?—A. Quite so, Mr. Factor, but you cannot pick up every good crop of tobacco in that great big district down there.

The CHAIRMAN: You cannot have it both ways, Mr. Lea. You cannot have it that the reason the price fell was that the good tobacco was gone and you were buying a lower grade tobacco; when the price rose two weeks after, it was because a lot of good quality tobacco was being bought; it is not consistent.

Mr. ILSLEY: He said he discovered some new high quality tobacco that he did not know was there, the southern crop, the Lake Erie crop.

Mr. SOMMERVILLE: That was 1931.

The WITNESS: That was 1931. It is a matter of impossibility to find every good crop in that section the first few days.

By Mr. Sommerville:

Q. At any rate the price did rise to 18·50?—A. What price?

Q. The average.—A. Some few crops were bought on that day.

Q. Let us see some of those good crops. On the 21st you purchased 578,000 pounds at 18·24. These are purchases you had made after two weeks, so it is not a small crop.

Mr. KENNEDY (*Winnipeg*): Are there other crops?

Mr. SOMMERVILLE: 367,000 pounds at 14·02; 844,000 pounds at 13·40; 330,000 pounds at 14·40; 413,000 pounds at 14 cents.

Mr. KENNEDY (*Winnipeg*): That is plenty. It shows clearly it was not just the tail end of the tobacco.

The CHAIRMAN: I do not think Mr. Lea would want any intelligent person to believe that.

The WITNESS: It was that.

By the Chairman:

Q. Were those quantities of tobacco that Mr. Sommerville just quoted of inferior grade?—A. No, it was not inferior tobacco by any means. There was some splendid tobacco sold at 14 cents, as I just stated. I came in contact with a number of crops that other buyers had offered 14 cents for, and I offered 18 cents.

Q. I suggest to you that there were only two things you did— —A. All right, sir.

Q. —that season that affected the market. The first was to delay the opening for a month?—A. I did not delay it, sir.

Q. You were in charge of the purchasing then. Who instructed you on that? —A. No one instructed me to delay the opening, none whatever. I had no instructions.

Q. Who instructed you to open it?—A. Mr. H. P. Buell.

Mr. FACTOR: When did you first come to Delhi to open the market?

The CHAIRMAN: 1932?

The WITNESS: As I remember, it was a couple of days before I opened the market.

By Mr. Factor:

Q. That was your first time in Delhi?—A. That is correct, sir.

Q. In 1932?—A. I was up there a number of times, right through the country, all during the season sir.

Q. When the crop matures—I understand it matures and is ready for the market at the end of September? Now, how soon after that did you go to Delhi to make arrangements for opening the market?—A. As well as I recall, I was there two or three days before the market opened.

Q. Was that the first time you came up after the end of September?—A. No, I think I was up there the last of September, as well as I can remember; I cannot recall that.

By Mr. Sommerville:

Q. Can you tell me this: I am looking at a letter which Mr. Buell wrote to Mr. Reed, of the Imperial Tobacco Company of Great Britain and Ireland?—A. Yes.

Q. Mr. Reed is the representative at Richmond, Virginia?—A. The Imperial Tobacco Company of Great Britain and Ireland has headquarters in Richmond.

Q. He goes on to say that they are going to open their buying next week?—A. October 18.

Q. They are going to open the buying next week, and he suggests Mr. John Hutson meet you at Hamilton, and that you then go from Hamilton together?—A. Yes.

Q. Then he says, I think they should begin operations not later than October 16. "Our Delhi organization will only be notified of these plans a day or two in advance." Can you give me any reason for the secrecy in not letting the Delhi organization know anything about it?—A. We never let anyone know what our plan is going to be, until the time comes.

Q. Remember now, you are a month later in opening, everybody is anxious. The whole area is in a state of wonderment. Here is the letter. It says, "Our Delhi organization will only be notified of these plans a day or two in advance." Why the secrecy in letting your Delhi organization know nothing about the opening day?—A. I cannot—it is a custom of the company, as far as that is concerned.

Mr. KENNEDY (*Peace River*): Who is Mr. Hutson?

The WITNESS: Representative of the Imperial of Great Britain and Ireland, sir.

By Mr. Sommerville:

Q. You give it as the custom, but they are calling attention to the fact that they are keeping it a secret when they were going to open the market?—A. We always do that.

Q. You always do that?—A. Yes, since I have been up here, always kept it a secret until the night before they notified the buyers.

Q. But other buyers had been in Delhi registered at the hotel and waiting there for weeks, for the opening of the market?—A. I cannot tell you sir, I was not there.

Q. At Tillsonburg?—A. I was, at the time.

Q. You had heard?—A. I had heard.

Q. Here is the whole list of the buyers who were registered there, and waiting four weeks for the opening of the market, and you were keeping that a secret, but you cannot give any reason for it?—A. No, sir. The custom of the company is never to notify the buyers until the day before the market opens.

Q. And the second thing I suggest to you that you did, with a view to depressing the market in that year, was to delay purchasing and only buy a

small quantity each day over a period of five weeks, instead of cleaning it up like you did the previous year?—A. No, sir; the reason for doing that was simply to try to steady the market. I did not want to fill our requirements in a week's time.

Q. Would you get the product cheaper by staying off five or six weeks rather than filling it in one week?—A. Would you do what?

Q. Would you get your product cheaper by buying over a period of six weeks rather than buying in two weeks?—A. I do not think it has anything to do with it.

Q. You do not think it has anything to do with it?—A. With our average, no, sir.

Q. In other words, a keen buyer cleaning up in two weeks would not pay more than a sluggish buyer over six weeks?—A. It is a matter of judgment.

Q. Well, as a matter of fact, now, did it not work out in this way, that when you did not clean up in two or three weeks as had been your custom, did you not have the growers come to your door begging you to come and buy their crop?—A. Possibly, some of them, yes.

Q. Possibly. You were there on the spot?—A. Yes. We had a number of them.

Q. Yes. Lots of them. I am told there never was a day pass that you did not have plenty of them coming back?—A. I do not think there were many in 1932, Mr. Sommerville.

Q. Was it worse in 1933?—A. It was worse in 1931, as I remember.

Q. You were only ten days. You would have 63 per cent in 1931?—A. I recall very well in 1931 these people broke their necks coming in. It had been a practice. The crop was small.

Q. You bought very fast, 63 per cent in the first week. You were living up to your reputation in 1931. Now you are buying in such a way that you only bought 32 per cent the first week, 20 per cent the second week, 14 per cent the third week, 10 per cent the fourth week, 16 per cent the fifth week and the last week you bought 2 per cent?—A. Well, as I said a few moments ago it was an enormous big crop of tobacco. We felt we would have a better market if we had gone through with it. If we had completed our requirements in a couple of weeks' time what would the tobacco sell for.

Mr. Kennedy (Winnipeg): Do you mean that your concern was for the growers?

The Witness: Yes, sir; it certainly was.

Mr. Ilsley: How could it help the growers to drag the buying out?

Witness: In other words, we are large buyers as you know. You take our buying power out of the market a week or ten days, say a week, and had twice as much tobacco as we need don't you think it would weaken the market if that got out?

Mr. Sommerville: Not if you buy it nearly all.

Witness: We could not buy it all. We could not buy over half of that crop—did not buy half of it.

Mr. Kennedy *(Peace River):* Could you buy it by spreading it over the season?

Witness: No, sir, I do not think we would.

Mr. Ilsley: What good did it do to the buyer to drag it out if you were buying the same quantity?

Mr. Sommerville: All right. That will do, Mr. Lea; that is enough.

SYLVESTER ROBBINS, called and sworn.

By Mr. Sommerville:

Q. You were for many years a representative of a plough company doing business in the Tillsonburg tobacco area?—A. Yes, for 22 years.

Q. And in that area you have carried on business until 1932?—A. Yes, December 31, 1931.

Q. And, as such, you had occasion—.—A. No, 1932. I am wrong.

Q. And, as such, you had occasion to visit the farmers through that area in connection with sales of machinery?—A. Continuously.

Q. In making your collections?—A. Collections and sales and credits.

Q. You were interested, therefore, in what the farmer was getting for his crop?—A. Yes, sir; vitally so.

Q. Vitally. And up to 1931, I understand, your sales and collections were very satisfactory?—A. They were, very.

Q. And when it came to the month of January, 1931, there was very little on your books in that Ontario area?—A. Yes. January 31st. That is right.

Q. Did you have occasion to visit the tobacco growing area in the buying season of 1931?—A. Yes, sir.

Q. And were you in the Arlington hotel in Tillsonburg on any occasion when Mr. Gregory and Mr. Lea were present in the fall of 1931?—A. Yes, a good many times.

Q. Now, will you please tell this committee what you heard on any of the occasions when either Mr. Gregory or Mr. Lea was present? First of all, take Mr. Gregory. By the way, you made notes of some of these things, did you?—A. Yes, I usually made notes of any occurrences from time to time because I was reporting to our office continuously about the outlook and the prospects and so on. We had to keep in very close touch.

By Mr. Factor:

Q. You made those notes at the time— A. At the time I heard the statements.

By Mr. Sommerville:

Q. What did you hear as far as Mr. Gregory was concerned?—A. I heard Mr. Gregory. I was not eavesdropping. I was sitting at a desk writing one night at 11 o'clock and I was close to the telephone booth and there was probably no one else in the hotel without it might have been the proprietor and the night man. Mr. Gregory was close to the door so I could not help but hear his end of the conversation. He called Montreal and he was appealing very strongly to someone at that end about the price that was to be paid for tobacco.

Q. For 1931?—A. The 1931 crop. He evidently was very determined that it should start out at 35 cents high and he worked away from half to three-quarters of an hour—perhaps an hour—and he came out of the booth without getting any satisfaction. That was very evident from the conversation I heard.

By Mr. Factor:

Q. Have you got the exact conversation?—A. The actual conversation. Mr. Gregory called Montreal. It is just notes as you would make them. I have not got the letter that I wrote the house concerning this. I no doubt wrote the house the same thing anyway.

Mr. YOUNG: You were writing this down while the conversation was going on?

The WITNESS: After the conversation, immediately.

By Mr. Ilsley:

Q. What was the date of this?—A. It is October 1931, the first of the month. It is a few days before Mr. Lea came into the hotel with some tobacco that he had bought. Just a few days previous to that. I have not the date—the day.

Q. You haven't the date marked on that?—A. No.

By Mr. Sommerville:

Q. Please proceed?—A. Mr. Gregory called Montreal, and my notes say. "The condition is panicky here and we have got to do something very shortly and I, in my opinion, 35 cents should be the price that we should start at as high."

Mr. Young: What date was that?

The Witness: October 1931, the first of the month. Some time about the first of the month of October. "It is my opinion that 25 cents is about right. It is an excellent crop" and that is the gist of what I noted. He, apparently, —I could tell by the sound of his talk—he was not getting much satisfaction. He came out. He left the booth, and he made a remark, "I am leaving tomorrow morning for Montreal."—I think he addressed the hotel proprietor—"my feeling in the matter is that we should pay a little more for tobacco than what is being contended at the other end."

Mr. Factor: To whom was that statement made after the telephone conversation?

The Witness: That information? I believe it was to the proprietor. I am quite sure he and the night man were the only ones there, and myself—were the only ones there in the office at that late hour. He said, "I am going to Montreal in the morning." He says, "My heart is in this business; you know I am a grower as well as a buyer, and I hope I will return but probably when I do I may not be the manager."

By Mr. Sommerville:

Q. He might not be the manager?—A. Yes. Now, that is all of my knowledge of it at that time—of Mr. Gregory's conversation.

Q. What conversation did you hear of Mr. Lea?—A. Mr. Lea came into the hotel in the late afternoon, if I remember right. I happened to be sitting at the desk and there was a number of people around, and he had a sample of tobacco in his hand and he was adressing some of his own men, I assume.

Q. Buyers?—A. Yes. I did not know any of them. I did not know Mr. Lea at that time. I had never seen him before.

Mr. Kennedy (*Winnipeg*): The Mr. Lea you are referring to is the one who has just finished his evidence?

The Witness: Yes, the gentleman who was here a moment ago. There he is over there. I had never seen him before. But he produced this tobacco, and he said, "Boys, there is a sample that I bought for 14 cents."

Mr. Ilsley: When was this; what is the date of this?

The Witness: That is October, about a week later than the other conversation.

The Chairman: Shortly after the opening of the market?

The Witness: Yes, shortly after the opening of the market.

By Mr. Sommerville:

Q. Yes, go on?—A. He said, "I bought this crop for 14 cents though more money had been offered by one of my own men during the day." He said, "The

young fellow is putting himself through college and he is taking his medicine like a man." That is the conversation I heard. That is all I heard.

Q. That one of his own men had offered more money for it?—A. He said one of his own men had offered more money for it.

Q. Have you a note of what his own man had offered?—A. 24 cents is the note I have here.

Q. One of his own men had offered 24 cents and he had bought it for 14 cents?

Mr. ILSLEY: That very day?

The WITNESS: Just a moment. No, a few days previous.

By Mr. Sommerville:

Q. Is there any other conversation that you overheard of Mr. Lea?—A. Yes. He says, "You have got to drive the market down for us."

By Mr. Factor:

Q. When was that?—A. The same time.

Q. Addressing his own men?—A. Yes, his own men. "This market has got to come down; those are my orders."

By Mr. Sommerville:

Q. "This market has got to come down; those are my orders"?—A. Yes.

Q. Is there anything else you heard him say?—A. No, that is all I heard him say. That is the sum total.

Q. That is the sum total of that. Now, later on, did you hear him or any other buyers of the Imperial talking about that market situation? —A. Yes. I heard two Imperial tobacco buyers talking in a dark corner of the street in Tillsonburg, the next day after word came from the Provincial House at Toronto that they were going to be assisted in the marketing of their crop. Colonel Tom Kennedy had been up to Simcoe the night before and he had held up some inducement—I do not remember the nature of it—and one of those buyers said to the other—

Mr. FACTOR: Was that about the 1931 crop?

The WITNESS: This was the 1931 crop. That is probably in December—November probably.

By Mr. Sommerville:

Q. This is later on?—A. That is a little later on.

Q. Mr. Lea was not present then?—A. Mr. Lea? No.

Q. Was there any other conversation with Mr. Lea?—A. No. I had no conversation whatever with Mr. Lea at any time—never spoke to the gentleman until to-day.

Q. Now, Mr. Robbins, what was the effect—

Mr. KENNEDY (*Winnipeg*): He started to tell about two buyers he heard in conversation.

The WITNESS: Oh, yes.

Mr. SOMMERVILLE: I do not know that we ought to introduce the evidence of some buyers. I wanted to have presented the evidence of Mr. Lea. I think it would be well to restrict ourselves.

The CHAIRMAN: Yes, I think so.

By Mr. Sommerville:

Q. What was the effect upon the machinery collections of the drop in price of 1931?—A. Very bad.

Q. And what was the effect upon the sale of machinery in 1931 and 1932 as the result of the drop in price?—A. The sales dropped off to a mere nothing in 1932.

Q. And what was the general condition of the farmers as the result of the price they obtained; what was the general condition prevailing which you found? —A. You mean of a panicky nature?

Q. Whatever it was.—A. It was of a panicky nature, of course. They were very unsettled, and many of the Belgium fellows, whom we are sorry to lose because they are good fellows, gave up their holdings and left.

By the Chairman:

Q. That was after the opening of the market or the sale of the 1931 crop?—A. The 1932 crop that was.

By the Chairman:

Q. That was after the opening of the market or the sale of the 1931 crop? —A. The 1932 crop that would be.

By Mr. Sommerville:

Q. Had any of the parties left as the result of the 1931 market conditions?—A. Yes, there were some left.

Q. Some?—A. Yes.

Q. In 1932 were there some?—A. Yes, I believe that there were, yes. I know that there were.

Q. As the result of the conditions that prevailed?—A. Why I am so sure about that, we had to repossess a lot of machinery that was left behind which we had never had to do before.

Mr. Young: Is this the witness that heard about the automobile incident?

The Witness: No, no. That is not any information of mine. That is current gossip. You can get anything up there. I am going to agree with Mr. Lea that you can get anything up there. According to the country in general up there, for a time Mr. Lea and all members of machine companies should have been hung.

Mr. Ilsley: Before the witness goes, it seems to me that if Mr. Lea or Mr. Gregory want to ask him any questions they ought to have a chance to do so.

The Chairman: Mr. Lea can.

Mr. Gregory: I will take care of myself on that, Mr. Chairman.

Witness retired.

Francis E. Gregory—Sworn.

The Witness: At the outset, Mr. Sommerville, before we start, I suppose I will be here at length, and I just want to say one thing. I believe Mr. Robbins was mistaken about that conversation, I think he was wrong.

Mr. Sommerville: Perhaps I had better locate Mr. Gregory first of all.

By Mr. Sommerville:

Q. Mr. Gregory, you come from Leamington?—A. Yes, originally from North Carolina.

Q. And you still retain some of the home properties in North Carolina?—A. Yes, sir.

Q. And you are familiar with conditions there and here?—A. Yes, sir.

Q. And you were, for many years, in charge of the buying operations of the Imperial Tobacco Company?—A. Either as assistant or manager for thirty-two or thirty-three years.

Q. Your brother was manager?—A. He was manager until 1918 and during that time I was assistant. His health was bad. I was a good deal more than assistant there, and from then on I was manager until 1931, I would say.

Q. Yes, and during that whole period you have seen the tobacco industry develop in western Ontario?—A. Yes, very decidedly.

Q. And for the Imperial Tobacco Company you have had charge of the buying operations?—A. Yes, and the development. There was very little tobacco grown here when I came; there was only a little burley, no flue-cured.

Q. Well now, Mr. Gregory, you have heard the statement of Mr. Robbins that he had overheard a telephone conversation and which he communicated to his company. You think he is mistaken about that. Now, what is your statement with reference to it?—A. Well, I am sure that I was never so indiscreet as to talk about price before the market opened. It is possible I had a telephone conversation somewhere, but I don't remember that one.

By Mr. Factor:

Q. Did you call Montreal that night? Let us get down to brass tacks; did you call Montreal that night?—A. I cannot say.

Q. You cannot say?—A. Three years is a long time. I think I will tell you before I get through. Three years is a long time, but I will definitely swear that I would not be so indiscreet to talk about price before any market was established. I will definitely swear to that. I think Mr. Robbins got his dates crossed or mixed up. It might have been some time during the buying operations; there was telephoning I would say after the buying started, but I will definitely and absolutely swear that at no time did I call anybody and say when I went out of the booth, Well I think they are wrong and I am right. I think I am a little better business man than that.

Q. Now, you say you may not have had a conversation of that kind before the opening of the market, but did you have a conversation during the opening of the market, or immediately upon the opening of the market?—A. Well now, Mr. Sommerville, excuse me, let us go back. You want a true picture of this business?

Q. I want you to tell me what happened in 1930 and 1931?—A. 1930 is the year that more significance attaches to, for your purpose, than any other. In 1930, sometime about August, I would say, Mr. Buell wanted me to come down to Montreal. I went down, and he told me that the directors were considering putting a brand of tobacco, wholly Canadian, out at a decreased price, and he said "You were in this country before I was when we used to have two or three prices for different kinds of tobacco, and I want you to tell them about it." So they talked it over with me. I told them that the 1930 crop was a very poor crop, and a short crop, and instead of putting out a Canadian tobacco as a special Canadian brand at a reduced price, that I considered an enhanced value because of the poor crop, that I would not do that, that the 1930 crop was a very poor crop, and short.

By Mr. Young:

Q. Poor in yield and quality?—A. In both, and that I would not take that tobacco and put it out as a special Canadian product and sell it cheaper.

By Mr. Sommerville:

Q. Because the crop that was grown in 1930 was likely to be dear because of the shortness of it?—A. Yes, sir.

Q. Well now, just go on and tell us what happened?—A. We talked over that condition, and it was then somewhere near the purchasing season and they

said to me, "We want you to get things together, get them lined up, and buy a large percentage of this crop, we have not got very much Canadian tobacco on hand and we have quite severe competition on cheaper tobaccos and so forth, and we want you to buy a large percentage of the crop." Well then, I do not know a great deal, Mr. Sommerville, until that crop was cured till I was called down to discuss the price and their requirements, and I still found they wanted to buy a large portion of that crop. I asked what their minimum requirements would be, and they told me that what they would like me to buy as a minimum amount would be nine million pounds. I went back, and without much more instructions, or much supervision—practically none—lined up the organization to buy the crop. I had expected if it had been a good crop to buy it say at a top price of say 35 cents, but being a short crop and them wanting to get a good sized quantity, I decided 40 for the top. We went through that campaign and I bought, the records here will show, I think, either two hundred thousand pounds short of nine million pounds or two hundred thousand pounds over.

Q. You got 8,878,000 pounds?—A. Something about 9,000,000 pounds. I think I had it about nearly right, and it was a stiff market. The Imperial Tobacco Company had not at that time acquired the Tuckett Company. They made quite warm competition, and I noted through the buying campaign, that if I really made an offer—probably I am speaking too exactly—to a farmer and left him I never saw him again. He sold to somebody else. After finishing buying, and looking back I did not see how I could have done any better, although I was told that the New York management thought the price was too high.

Q. You paid an average price then of $31\frac{9}{10}$ cents?—A. Yes, sir.

Q. And you got 71 per cent of the entire crop?—A. Yes.

Q. And bought nearly 9,000,000 pounds?—A. Yes, sir.

Q. And then you were told after the purchase was completed that New York said you had paid too much?—A. Mr. Buell said to me sometime afterward—he did not seem to think so—but he said, that New York think—"Think" I believe was the word, although I do not remember whether he said Mr. Harrison or not. I think he said "They think in New York that this crop was too high." I said "Mr. Buell, looking back over it I do believe I could buy probably somewhat cheaper, but I declare that if I had to do it over again for flue-cured I could not have done any better, having regard to your instructions that you wanted 9,000,000 pounds."

Q. Yes, and was this the first time that you had heard of New York interests having anything to do with the price that you paid for the flue-cured tobacco?—A. Well, I must say that probably ten years before Mr. Harrison had been to Leamington, but I had never heard very much, and they always had seemed to be well satisfied and complimentary of the way the business was handled; and it was now growing to larger proportions and that, I must say, was the first time that I ever, you might say, was criticized from New York.

Q. That is, Mr. Buell did not think you had paid too much, but New York thought so?—A. He did not seem to think so. He did not say he thought so, and I took it from his conversatioon that he thought we had done the job just about right.

Q. Well then, Mr. Gregory, following that purchase what was the next condition that arose in the crop of 1931, what happened?—A. Well, a great deal has been said about Mr. Lea. Mr. Lea came on the scene, I think, in January of 1931. Mr. Lea come out when we were handling the 1931 crop.

Q. That is to say, when you were processing?—A. When we were grading and processing both, the two operations together.

By Mr. Factor:

Q. The 1930 crop or 1931 crop?—A. The 1930 crop, in January of 1931. We had officials from New York, and I believe probably one from England, and I had always told them it was a very common crop, and in looking it over they thought it was not quite as common probably as I had represented it to be, that it was fairly suitable. However, they needed tobacco then and common tobacco did not look too bad.

Q. They thought it was fairly suitable?—A. Yes.

Q. In other words, they thought you had rather discounted the crop?—A. They thought I had not been sufficiently conservative in estimating quality.

Q. And then what happened, Mr. Gregory, with Mr. Lea, what position did he take, or how did he function?—A. Well, at that time I would say that Mr. Lea did not assume a very important position, or did not assume too much authority, during that time I am speaking of—early in 1931.

Q. Then you had the crop of 1931 planted and growing, and that was a better crop than 1930?—A. That was a crop nearly twice as large and much better in quality.

Q. Yes, and what happened when you were coming to the buying season then in 1931?—A. Well, I think probably no doubt Mr. Lea, Mr. Buell, and others, together with myself, got talking price in the summer, and so forth, and when it came to the time to consider buying I went down to Montreal and had a conversation. I went down sometime, I would say, in September, probably the latter part of September or maybe the first of October. I went first to Mr. Buell to discuss the buying operations, and that year was the first time they had primed tobacco, and we were anxious to get the growers to prime. Priming is breaking off the leaves.

Q. Yes, we know the priming method.—A. I believe there were about a million pounds of primed tobacco, and a great part of that was, I would say, fancy, and I suggested paying 35 cents for the better part of the primed tobacco and 30 cents for the good tobacco.

Q. Yes, as the top?—A. As the top. And we had also been instructed or asked to segregate these crops worth from 25 cents up. They wanted the better end of the crop, you understand, and that was impressed on my mind that they wanted the best tobacco, so in the talk I suggested 35 cents for top price for the best primed tobacco, and 30 cents for the good tobacco, and an average of what we would probably buy of 25 cents a pound. Now, I might say no man can intelligently say what a crop is going to average until you get your average or the quality. Mr. Buell considered it over at length, very much at length, and he said that in New York they thought that the price ought not to be within 25 per cent or 30 per cent of the previous year, 25 per cent or 30 per cent lower than 1931. What was the average that year?

Q. 31·9?—A. Yes. That would indicate an average of possibly 22 or 23 cents, I believe.

Q. Yes, that New York said——A. It should be at least 25 per cent or 30 per cent less.

Q. Less than the average price paid in 1930?—A. Yes.

Q. That was 1931, bought in 1930, and that would bring you down to 22½ cents for 1931?—A. Yes. Well, then, just at that time representatives of English buyers had been very busy in the Delhi district looking over crops, and I understood from all the information that I could gather that they seemed pleased with the crop and wanted to pick off a good part of the better tobacco. Unfortunately, England went off the gold standard just about the time I was talking to them and, like the Arabs of old, they folded their tents and silently stole away.

Q. Yes, that is 1931?—A. Yes.

Q. They were here, but they vanished with the gold standard?—A. They vanished with the gold standard, and it was just about the time I was talking to them. I wanted 25 cents and probably that was quite all right at the time. Then there was not quite as much competition as we expected.

Q. When they vanished there was not quite as much competition as you expected?—A. No. So then that was our talk, and I was finally instructed that we would start in at 35 for the primed crop, and 30 cents was to be the top—

Q. Thirty cents was to be the top, and that would be for that primed tobacco?—A. And cut, and that we were to try to reach an average of about 22 or 23 cents.

Q. Those were your instructions then?—A. That was it.

Q. To reach an average of 22 or 23 cents?—A. Yes. And Mr. Buell said to me just before I was leaving "What time do you want us to come up there", referring to himself and Mr. Lea.

Q. Yes.—A. I think he said "What time do you want us to come up there, next Sunday?" I believe we were to start Tuesday, and he meant the following Sunday. I felt quite a responsibility. It was a large crop. I said "Well, why wouldn't it be all right for Mr. Lea to come on back with me." So it was arranged for him not to come back with me but a day or two afterwards before we started buying; and we were talking about the method of buying and I said "Well, we have twelve men at Delhi and some of them are new, and I intend to team them two together and make six buyers instead of twelve". Mr. Lea spoke up and said "You have old men at Leamington, why not send them down and send the entire twelve out". Mistake number one. When I said "Yes" I made a blunder, but I said Yes to him.

Q. Not every man knows how to count his blunders.—A. So then I went back and we got ready, and Mr. Lea came, and so forth. I must say we all expected considerably more competition than developed; we all did, and before we went out a good many of them were talking about how much we would buy and that they did not believe they were going to sell, but I said I believe they are going to sell. So I did not know whether to send the twelve men or not, but we brought down some Leamington men, and I think we sent out if not twelve at least ten, and I took one territory myself, and after buying three of four crops I saw that the buying was very easy.

Q. Buying it for a reduced price was very easy?—A. Yes, sir. The buying at 30 cents top was very easy. I figured not so much competition. I said to the men that were with me, at eleven o'clock, "Turn round and let us go back to the office." And when I got back I called in every buyer that I could see to come in for dinner, and either phoned or sent messengers out for those that did not come in, telling them to come in. I felt that in buying those big crops of tobacco with ten or twelve buying instead of six that my better judgment had told me before, we were going to buy too much tobacco that day, although we were buying the best.

Q. What difference would that make? Did not that help to maintain the price?—A. Well, it was not doing the very best under the circumstances.

Q. For the Imperial?—A. Yes, sir, whom I represented at the time.

Q. That was your job?—A. Yes. So after I had got nearly everybody else in, to wait until we were going to consider that thing that afternoon and go slower, Mr. Lea came in with Mr. Wilson, and he took the position that he did not see what I was uneasy about in buying the type of tobacco the company wanted and he bought, as the figures show, more than anybody else, and that he did not think there was anything to be alarmed about, we had better go ahead that afternoon. So I said "Well, we will go ahead this afternoon but let us be a little more careful." I do not know what I said, but my meaning was

this: The crops look like 27, 27½ and 26, just be a little kind of gradual, not anything drastic, be down a dollar or two.

Q. We are getting on the inside now.

By Mr. Factor:

Q. Are you still employed with the Imperial Tobacco Company?—A. No, sir.

By Mr. Sommerville:

Q. You are largely interested in them though, you have a very large investment?—A. I have some stock, yes sir.

Q. And you are a grower?—A. Yes, sir. So that afternoon we came in and the figures indicated 3,600,000 pounds at an average of 27.50.

Q. What happened that night now as a result of your buying operations of that day?—A. I think now, if I remember right—and I will say I do remember right—Mr. Clifford Geary, Mr. Buell's assistant called up saying he thought we were buying a little fast.

Q. You had not told them?—A. No. Well, probably yes; probably we wired them, I don't remember.

Q. At any rate, you got a call from Mr. Buell's office?—A. Yes.

Q. That you were buying too fast?—A. Yes; and I told them that I didn't know so; that Mr. Buell's special representative, Mr. Lea, bought more than anybody and he thought we were buying all right. So we went ahead next day, the second day, a little more cautious yet. I won't swear as to the date, but I think it was the second day. I had a call from Mr. Buell that night. Mr. Buell was in a highly nervous condition and said he was in the hospital. He said a great deal over the 'phone, that we bought too fast, that we bought too much, that New York had called him and he was worried about it, and so forth.

Q. On that day, the second day, New York had been complaining that you were buying too much on the first day?—A. My understanding from Mr. Buell was that someone in New York thought that we were buying too fast; and he said he was in the hospital and didn't feel very well, and they had him all worked up, and he was in a highly nervous condition.

Q. What had New York to do with it, with the buying? You had been buying for twenty years and had not been interfered with from New York?—A. Probably they wanted to show me just how to do it.

Q. That was the first time, at any rate, that Lea was up there?—A. That was his first year purchasing.

Q. That was the first year he had purchased, and he had come up from the British American in New York?—A. Yes.

Q. Then you say Mr. Buell said that New York said that you were buying too fast. Then what happened?—A. Well, I talked to Mr. Buell quite a while over the phone; and finally after talking quite a while, saying to him that probably we had bought a little faster than if I had it to do over again, but still we had a lot of tobacco to buy, and I felt sure the average would be just right. We bought the best tobacco at an average of 27 cents, I think. We had a great deal more to buy, and I think our average—I had been figuring we would get it down to the right place. Finally, after you might say I had not satisfied him or something, I said, "Your man, Mr. Lea, is here; he has conducted a large part of the operations. Let him talk to you." So they talked quite a while then.

Q. Then, following that, did Lea appear to have the supervision of the buying, really, although you were in that position in name?—A. I will say from that time on that Mr. Lea gradually assumed the reins, and I was more or less ignored, and more so as the time went on; and that I could not say who was in charge after that. I certainly was not.

Q. Well, that is very frank. At the end of the week, I understand Mr. Lea returned to Montreal?—A. Yes, sir.

Q. When he came back, what were the instructions?—A. Well, I can't—

Q. Let me put it to you this way: Did he say that the instructions were that the market had to come down? Is that the gist of it?—A. I think the whole gist was that we had bought too much tobacco at this price, and that it had to get down to 22 or 23 cents, average, when we got through.

Q. When you got through, yes?—A. And from then on, for a period of probably a week, there was a panicky market and very improperly conducted, I would say.

Q. What do you mean by a panicky market improperly conducted?—A. Well—

Q. What was panicky?—A. As I have said, then it was hard to say who was managing the business; and I don't think those who were managing it were acquainted with that kind of buying; and while I felt that in the end the average would be satisfactory, it seemed they wanted it so right then, or very quickly.

Q. What do you describe as panicky? Who were panicky, the buyers or the growers?—A. Both.

Q. Both the buyers and the growers?—A. Yes.

Q. How was that manifested in the marketing? You said the market was improperly conducted. What do you mean by that? A. Well, if I had been doing it alone I probably would not have dropped it so fast. Instead of going right down, I would have—

Q. Gone down gradually?—A. Yes, a little slower.

Mr. Senn: Prolong the agony.

The Witness: Probably this will elucidate the point I am trying to get at. I went down, I believe, when Mr. Lea returned to Delhi; I think I left Leamington Sunday, or Monday morning, and was to get there Monday at noon. Prior to his going to Montreal, I had stated in figuring how much tobacco we had to buy, and having regard to what we might buy—12,000,000, I think,—that it was only necessary to buy the balance of the tobacco at an average of 18½ or 19 cents, and that would put the total average at the right place. He went to Montreal, and I went down and expected to meet him in Delhi at two o'clock, or one o'clock—had dinner in Tillsonburg. When I got over to Delhi I found Mr. Taylor or one man—there was only one man left on the premises of the organization in the office. I said, "Where is Mr. Lea and the buyers?" He said, "Well, Lea has sent them all out in the country with instructions to buy tobacco at an average of 18½ cents." Well, take young men, send them out to buy on an average of 18½ cents and try to buy the best tobacco—of course, they don't know just what to do. You would see them sit down on the roadside, after buying one crop at 22, and say they have to go and buy another at 16 cents in order to get the average right.

Q. In order to make it up?—A. Yes.

Q. I am going to ask you pretty directly; in that process was it not a fact that 24-cent crops were bought for 16 and 18 cents?—A. I would say that that probably is a fact. 30 was the top; and 24 down to 18, I would say, yes.

Q. Is it not a fact that when one grower compared his crop with another, that the other man had received 24 cents for, and this man was being offered only 18 cents for a similar 24-cent crop, there was consternation in the district?—A. Yes.

Q. Is not that the fact?—A. Yes.

Q. In other words, the average was being brought down by buying equally good crops at 25 per cent lower than had been paid for them?—A. Considerably lower.

Q. Instead of averaging up gradually by buying a lower quality of tobacco, they were buying good quality of tobacco at lower prices, is that it?—A. Often times, yes.

Q. Is not that the effect of the marketing operations of the second week of 1931?—A. Yes.

Q. And is that what resulted in there being panicky conditions?—A. At one time I was out myself, in the second week, and I found a real good crop of tobacco, and we had been buying that kind. It was a very good crop. We had been buying that kind of tobacco from 21 and 22 cents.

Q. When you say a good crop of tobacco, you mean one that was worth 26 cents or 27?—A. Or 27 or 28.

Q. And you had been buying that at 21 cents?—A. Yes.

Q. In the second week?—A. Yes. Here is the idea. I went into the telephone office at Tillsonburg. I was personally buying right north of Tillsonburg, and I saw this real good crop, a crop that was worth, as you say, 27 or 28 cents, the first day, and the average had to come in. I never heard as much about average. It was average, average, every day. So I went in to call Mr. Buell up at Montreal. I started to talk to him about this, that I didn't like the way things were going, that we always prided ourselves on each crop falling in its logical place of value, and we had the goodwill of the farmers and had always dealt that way with them, and have tried to make them deal accordingly. I said this crop out there—I got about that far and Mr. Buell was still nervous, probably worried a great deal, and said, well if you are going to take the part of a farmer or something like that. I said, Mr. Buell, please, please listen to me a minute, it is a crop of tobacco out here that would have sold for 27 cents, or 28 cents—I forget now the price, it was a good crop—and I did not think it was good business for the Imperial Tobacco Company to pay 18 to 20 cents. I said, what would you think. He said, give him a quarter, or something like that. I said, you are just right, I am very glad I called up, and thank you for the consideration; I am glad we have come to an agreement. And I gave him a quarter, and then after that I bought similar crops at 25 cents, and worked on that.

By Mr. Factor:

Q. Was this a conversation with Mr. Robinson?—A. No, that was in a hotel, I went in to Tillsonburg to telephone, and I stood up and I remember it took a long time and it was very disagreeable.

By Mr. Sommerville:

Q. Then the whole operation in 1931 was to a large extent supervised by Mr. Buell's representative, Mr. Lea?—A. Yes, sir.

Q. Now, we have heard some evidence to-day about Mr. Lea bringing in a sample of tobacco and saying, I bought this from a boy at 14 cents and he took his medicine like a man; do you remember anything about that? It may be embarrassing, but I want to know?—A. Quite frequently Mr. Lea would come in with a sample and state the price he paid—ask somebody what it was worth, or what he bought it at.

Q. He would ask somebody what it was worth; they would say what?—A. And he would say he bought it for fourteen, fifteen, seventeen, or eighteen cents, as the case might be; and I have to say that I do remember hearing him say about the boy.

Q. You do remember him saying about the boy?—A. I remember.

Q. That he bought the tobacco from this boy at 14 cents, and that the boy took his medicine like a man?—A. Yes, sir.

Q. And do you remember him saying that?—A. However, you can pick a good sample of tobacco from almost any crop. I thought Mr. Lea probably was

advertising himself as a super-buyer, quite a wizard, you know. You can go into any crop and pick a good sample.

By Mr. Factor:

Q. He was sort of puffing a little bit?—A. Yes, Mr. Lea was gradually assuming the ascendency.

By Mr. Sommerville:

Q. Well then, it is not true that you are the man who is responsible for the failures and the troubles of that campaign?—A. It is only true to this extent: that I was hampered with too many obstacles in buying, too many bosses, too much supervision. Mr. Lea was never, as you probably would think, a subordinate of mine. He came first from the United States to Mr. Buell, and then was Mr. Buell's special agent I would say, or something of that kind.

By the Chairman:

Q. Then it is not true that Mr. Lea came from Montreal as a messenger boy conveying instructions?—A. Oh, no.

Q. You heard him say that to-day?

Mr. FACTOR: He did not say "messenger boy."

The CHAIRMAN: He said he just conveyed a message.

Mr. ILSLEY: He said he came to assist.

The WITNESS: I would say more than assist; a super-necessity—to supervise.

Mr. SOMMERVILLE: Well then now, what about the statements that have been made that Mr. Lea was surprised—

The WITNESS: It is a long time between drinks.

Mr. SOMMERVILLE: I know, you are from Carolina; there you are, help yourself.

By Mr. Sommerville:

Q. What do you say, Mr. Gregory, as to whether or not Mr. Lea made any statement that when he got through buying the farmers would not be riding in automobiles, that they would be either on their feet or they would be driving buggies?—A. I do not recall having heard any such statement.

Q. You do not recall any statement of that kind?—A. No, sir.

The CHAIRMAN: It is nearly six o'clock and I do not think we had better open up any new ground. We will meet again to-morrow morning at 10.30.

The Committee adjourned at 5.55 p.m. to meet again on Thursday, May 10, 1934, at 10.30 o'clock a.m.

House of Commons, Room 368,

May 10, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 10.30 a.m., Hon. H. H. Stevens, presiding.

Mr. Norman Sommerville, K.C., of Toronto and Mr. W. W. Parry, K.C., of Toronto, appeared as counsel for the committee.

The Chairman: Order, gentlemen. The minutes of yesterday record the names of the witnesses and a certain list of documents that were filed, and that is all. We will declare the minutes approved. There are two or three witnesses in the committee from the province of Quebec, and I think some of these witnesses would prefer to give their evidence in French. We have a French reporter and also an interpreter present, and I suggest to the interpreter and witness that if the witness is unable to speak English at all he will give his whole testimony in French so that the record may be clear.

Joseph Marion, called and sworn.

J. C. Beauchamp, Interpreter, sworn.

(Examination conducted in English and interpreted by the official interpreter, Mr. Beauchamp.)

By Mr. Sommerville:

Q. You are a citizen of Saint-Jacques L'Achigan?—A. Yes, sir.

Q. And you represent the tobacco growers of your district?—A. Yes, sir. That is to say I am a dealer in leaf tobacco and am also a farmer.

Q. Would you express your opinion to the committee respecting the general tobacco situation in your district or in the province of Quebec?—A. I am pleased to appear before this committee in the interest of all and in my own interest. The Canadian tobacco business in the province of Quebec, particularly in our own district, is not prosperous. That is to say the grower has stocks on hand which he cannot sell.

The Chairman: From the standpoint of a producer?

The Witness: Yes. I mean from the standpoint of the grower. The low prices which have been paid since 1924 have certainly hampered the grower who has continued to produce, and, unfortunately, during the past three consecutive years we have had poor crops. The large manufacturers, the Imperial Tobacco company purchased in 1921 a portion of the tobaccos which the growers had on hand at that time. The post war conditions certainly contributed to a lowering of the prices of tobacco just as they resulted in the lowering of the prices of other commodities. In 1924—the beginning of 1924 and in 1925, prices improved. The Imperial Tobacco company and other large companies such as Rock City Tobacco had encouraged the growers, already making fairly large purchases. Competition between the dealers was advantageous to the grower in 1924. Since then the big manufacturers have not made

any large purchases. They probably secured their supplies elsewhere. Ontario is, perhaps, more clever than Quebec—I cannot say—but at all events Ontario increased its production.

By Mr. Sommerville:

Q. Are you speaking of leaf tobacco, Mr. Marion?—A. I am speaking particularly of pipe tobacco, and I also wish to speak of cigar tobacco, of the quality which we call the Comstock.

Q. The committee would like you to examine these figures, Mr. Marion. They relate to cigar tobacco and leaf tobacco. The average prices paid in 1928 were 11·3; 1929, 15 cents; 1930, 9 cents; 1931, 5 cents; 1932, 4 cents. Now, with respect to pipe tobacco, the heavy tobacco in 1928—the average price was 8·2 cents; 1929, 12 cents; 1930, 10 cents; 1931, 5 cents; 1932, 3 cents. Would you like me to quote you the prices of what they call petit tabac?—A. Yes.

Q. In 1928, 27·8 cents; 1929, 24 cents; 1930, 16 cents; 1931, 8·5 cents; 1932, 7 cents. Do the government's official figures represent approximately the decrease in the price of tobacco to which you have referred?—A. In your official report for 1928, you have what?

The CHAIRMAN: That is a slight variation.

The WITNESS: I wish to put in the figures that I use in my own business.

The CHAIRMAN: Are they approximately correct?

By Mr. Sommerville:

Q. Are they nearly correct?—A. You have, in 1931, an average price of five cents.

Q. The table that you are looking at, represents the price for all the province of Quebec, You may be dealing in your own mind with prices in your own district. Give me the prices in your own district then, the prices for 1929, and the price last year, just those two years?—A. In one case, you have an average price of 4 cents for No. 1 tobacco.

Q. In what year?—A. 1932, sir.

The CHAIRMAN: Give us your figures for 1929 and 1930 so that we can get the picture of your own district; never mind anything else.

The WITNESS: 1929, the prices in my district ranged from 4 cents to 13 cents a pound; that is, these prices related to inferior tobacco.

By Mr. Sommerville:

Q. From 4 cents to 13 cents?—A. When we purchase tobacco, there is about 20 per cent which represents inferior tobacco.

Q. Is this leaf or pipe tobacco?—A. I refer to two brands or two types.

Q. What is the next figure?—A. 1929, according to my figures, the average price paid ranged from 4 cents to 13 cents a pound.

Q. What about 1932 or 1933?—A. In 1933 the prices ranged from 3 cents to 8 cents a pound.

Q. Now, proceed?—A. I understand the gentlemen of the committee desire to know the reasons why the tobacco business is in a more or less stationary condition.

Q. Yes?—A. As condition are to-day, the tobacco grower cannot cover the cost of production. One of the causes is due to the fact that our manufacturers have stopped purchasing tobacco. In the second place, the banks have considerably restricted their line of credit, which used to enable the tobacco grower to carry over or hold his crop for a certain period until prices picked up. The tobacco growers who used to secure a line of credit from the banks, were compelled to sell their tobacco at a sacrifice price, in order to pay their costs.

Mr. EDWARDS: It is the same old story, liquidating their inventory.

By Mr. Sommerville:

Q. Is it a fact the farmers are in the hands of the bank to the extent that the credit of the bank affects them in their carrying of the crop?—A. In the past, certain farmers secured a certain line of credit in the banks by giving a lien on their crop.

Q. Have you a system in the province of Quebec by which the fertilizer men sell the fertilizer for the crop and take a lien on the crop, and then you have to sell to the fertilizer men the amount necessary to pay him?—A. There is no such system.

Q. Proceed?—A. The farmer, not having a line of credit, and compelled to meet his commitments, has to sell his tobacco at a sacrifice price, and has sometimes sold it for two or three cents.

By Mr. Baribeau:

Q. Have you much tobacco on hand that represents a carry over?—A. A few million pounds. Some of it represents part of the crop of 2 and 3, and even 4 years ago.

Q. Still being carried over?—A. Carried over.

By Mr. Sommerville:

Q. Is that in the hands of the farmers, or the hands of the leaf company?—A. Some of it is in the hands of the farmers and a certain quantity in the hands of the traders.

By Mr. Baribeau:

Q. Is there a larger proportion of pipe tobacco than cigar tobacco?—A. There is a larger proportion of pipe tobacco because of the poor crops and the condition of the tobacco itself. For several months past the large tobacco manufacturers have launched a campaign to induce the farmers to sign a petition asking for an excise duty tax of 20 cents a pound to be put on tobacco.

By Mr. Sommerville:

Q. On the loose leaf tobacco?—A. On the loose leaf tobacco. That is, that there would be a tax of 20 cents a pound on all tobacco whether it is sold by the retailer or the farmer.

By the Chairman:

Q. What is your reaction to that?—A. In our district it was the agent of the Imperial Tobacco Company who had this matter in hand.

By Mr. Baribeau:

Q. Mr. Marion, do you believe, the large tobacco manufacturers are interested in having such a tax imposed on tobacco?—A. If I am to judge by the work of the company's representative, and the means he took to secure signatures on the petitions, I know of instances where ten cents a name was paid for signatures.

By Mr. Boulanger:

Q. To the agent? Have you any idea how many persons signed those petitions?—A. The people signed the petitions on the first representations that were made, because it was represented to them that this tax would eliminate the small producers and small traders who were producing or selling tobacco of a very inferior quality.

By Mr. Baribeau:

Q. Is it to your knowledge that counter petitions were signed?—A. Yes, sir.

By the Chairman:

Q. You have not answered my question, what is your view as to that?—A. The procedure was repugnant to me.

Mr. BOULANGER: He means the procedure of the agent getting the signatures.

The WITNESS: It is true that the paper that was submitted to prospective signers contained particulars. The party who was approached and asked to sign a petition took the verbal representations as they were made and did not read the particulars printed on the petition.

By Mr. Baribeau:

Q. The Chairman's question is, I think, are you in favour of the tax?—A. That tax hits the consumer; such a tax would hit the consumer. It hits the two parties, the one who wants to purchase good quality tobacco and the one who wants to purchase tobacco of a lesser or inferior quality. Translated literally, the small traders would experience difficulty to secure the capital required in connection with the imposition of that tax. That is the literal translation.

By Mr. Sommerville:

Q. We have had filed with the committee, so that you may know it, petitions from many thousands of farmers from the province of Quebec against such a tax, as filed at page 1438 of the proceedings.

By Mr. Ilsley:

Q. Ten cents a name was paid for signing petitions, and for signing a petition against the tax?—A. Yes, to sign the petition.

By Mr. Young:

Q. Not paid to sign a counter petition?—A. No. They paid ten cents a name to the canvasser.

By Mr. Edwards:

Q. Who paid the ten cents?—A. The agent of the Imperial Tobacco Company paid that, that is Mr. Fontaine.

By Mr. Ilsley:

Q. How would this twenty cents a pound excise help the producer? What argument was advanced why it would help the producer?—A. In this way, that the agent of the company, the canvasser for names, stated that if the parties signed these petitions they would at once purchase the balance of the supply of tobacco on hand and at an increased price. 95 per cent of those who signed the petitions in good faith also then signed the counter petitions. The canvassers also represented to the parties whom they asked to sign these petitions, that in Ontario conditions were very much improved, where some years ago only a few acres were grown they were now growing thousands of acres or had thousands of acres in cultivation, and they produced millions and millions of pounds of tobacco, and had no trouble selling it and were prosperous.

Mr. SOMMERVILLE: Far off fields look green.

The WITNESS: If I judge the situation well, certain producers were not favoured to the extent that these parties represented.

By Mr. Ilsley:

Q. When were these petitions circulated?—A. I think they started to circulate these petitions about December or January.

By Mr. Sommerville:

Q. Within the last six months at any rate?—A. Yes, within the last six months.

By Mr. Baribeau:

Q. Undoubtedly, Mr. Marion, it was not the producers but the manufacturers who launched this campaign to secure petitions?—A. Yes, sir.

Mr. SOMMERVLLE: It was not a spontaneous move.

By Mr. Ilsley:

Q. How would it help the manufacturers, what was the secret of all this?—A. One effect would be to eliminate a large number of parties handling the tobacco, manipulators, that is, the imposition of that tax would have the effect of eliminating a large number of these dealers in our leaf tobacco.

By Mr. Kennedy (Winnipeg):

Q. Would the effect be to concentrate the control of the processing of the tobacco in the hands of the large manufacturers?—A. The elimination of the smaller average dealer would naturally tend to place more control in the hands of the powerful manufacturer.

Q. And was that the purpose of asking for this excise tax?—A. Certainly.

By Mr. Young:

Q. Where had those small dealers been in the habit of selling this tobacco when they got it?—A. To the retailer.

By Mr. Baribeau:

Q. Do you not think, Mr. Marion, that the imposition of an excise tax of 20 cents a pound on our leaf tobacco would encourage the sale of cut tobacco?—A. In the province of Quebec very many of our people are still accustomed to smoke leaf tobacco.

By Mr. Edwards:

Q. Is that the quality of tobacco the peddlers handle?—A. As a rule, these peddlers sell tobacco of an inferior quality. That is why I have been asking for the last twenty-five years that there should be some control over the sale of leaf tobacco.

By Mr. Factor:

Q. Do you favour the imposition of the tax for that purpose?—A. I have not favoured it.

Q. What other control do you suggest?—A. The province of Quebec has done something on our behalf. Last January the Provincial Legislature passed an Act respecting the processing and the sale of leaf tobacco.

By Mr. Sommerville:

Q. By the way, Mr. Marion, you have a brief prepared, the translation of which has just been handed to me, and it is now being distributed to the members of the committee. Could we not just read that brief and the translation of it.

Mr. BOULANGER: Where is the French text?

The CHAIRMAN: The witness can proceed and read the brief.

TOBACCO DISTRICT, L'ASSOMPTION-MONTCALM

The requests hereby submitted to the committee of investigation are on the same grounds as those expressed in the petitions signed by the tobacco-growers from the Northern District of Quebec, including the Counties of l'Assomption-Montcalm, Berthier and Joliette.

We beg that no tax be levied on leaf tobacco sold to others than manufacturers and that these be not prohibited.

Half of our production is sold in raw condition, directly from the producer to the consumer, through the medium of merchants, without passing through the factory. As this kind of trade represents a great portion of the tobacco consumption in our Province, the manufacturers are likely to object to it in order to have pipe tobacco go through the factory; this is quite natural, hence the fight . . . The growers hold to this outlet which means 15 or 20 purchases against one.

In the course of the present investigation, the Ontario growers complain of being at the mercy of the tobacco trust. Such remarks are not likely to change its views.

It has been said here that a pipeful of Canadian tobacco is out of style and that one must be modern. It would be interesting to make inquiries from Quebec Federal Members and find out how many bags of Canadian tobacco are still being used throughout the Province, and the latter must be posted on this matter. We might be amazed, as was the case, about the lottery tickets to which Hon. Mr. Taschereau was referring some time ago.

Undoubtedly, the leaf-tobacco trade is affected by the depression, but it is quite evident that no improvement is to be expected by blocking the marketing of our production; our growers want more freedom for their sales.

Our suggestions are very much along the same lines as those of the Ontario growers, viz: organization of official classification by way of a central drying storage and public auction sales.

At present, the market is overloaded with too many varieties of tobacco. Official classification and public auction sales would bring about a more regular and guaranteed market for the pipe, aromatic and other blends of tobacco, and would also help the production and sales of our cigar-tobacco and enable the exportation of a certain quantity of these tobaccos. We consider these means the most adequate for the producing and marketing of cigarette-tobacco which we hope to handle soon.

In our District the culture of tobacco is being done on a rather small scale. We figure that we can make reasonable profits at ordinary prices if we can keep a free market for our leaf-tobacco and secure the necessary help to build up a drying storage and improve the classification and public auction sales system. With these objectives, we join the formulated requests of the growers of Ontario.

By Mr. Boulanger:

Q. I understand that apart from being a tobacco grower you are also a dealer in tobacco?—A. Yes.

Q. Can you tell us approximately how many pounds of raw leaf tobacco you purchased yearly from the farmer?—A. In 1929 I purchased almost 1,000,000 pounds of tobacco.

Q. You purchased that from the growers?—A. I purchased that from the growers.

Q. And in 1930?—A. In 1930 I purchased approximately 400,000 pounds of tobacco.

Q. And in the following year, 1931 and 1932?—A. In 1931; I was compelled to reduce my purchases in the last few years on account of the conditions that prevailed.

By Mr. Baribeau:

Q. Do you mean that less tobacco was offered to you?—A. That is why I would like to see some control over the tobacco business, for the raw leaf tobacco business; but I am not in favour of the imposition of a tax.

Q. The witness has just stated that in 1929 he purchased 1,000,000 pounds of tobacco; and in the following year, 1930, he purchased only 400,000 pounds; why did you buy the much smaller quantity in the following year?—A. In 1929 we paid the growers from 4 cents to 13 cents a pound, and they felt they were fairly well paid; but since then the price dropped, partly due to the fact that the large manufacturers were not purchasing the tobacco. As the sale of leaf tobacco was not controlled, and the grower did not consider the price satisfactory, he tried to dispose of his tobacco himself.

By the Chairman:

Q. How would you control, or improve? You do not like the tax, what would you like to improve conditions?—A. The setting of a minimum price on tobacco of the first quality.

By Mr. Sommerville:

Q. For the first quality?—A. Yes. Secondly, that only one grade or type of tobacco be grown on each separate farm; some growers are in the habit of growing 5 or 6 separate varieties on the same farm.

By Mr. Edwards:

Q. That is just the point I was going to try to bring out; in your brief in the second last paragraph you state that at present the market is overloaded with too many varieties of tobacco; well then, in the brief which we had the other day from the Imperial Tobacco Company in which they endeavour to improve crops in the Norfolk district, they recommended the planting of certain types of plants—for instance, they recommend the white-stem orinoco, yellow mammoth and so forth; would that be a solution? Of course, I mean flue-cured, the same principle; in other words, to standardize the type of plant?—A. Quite so, certain standards of tobacco might be growing, but owing to climatic conditions some types of tobacco would be more suitable for one district than for another.

By Mr. Boulanger:

Q. What quantity of tobacco—?—A. You must bear in mind that I had a carry-over of 350,000 pounds from 1928-1929.

Q. How many tobacco dealers like yourself are there in the Joliette district?—A. I could not say definitely, in my own district, possibly 60.

Q. Then, how much tobacco did they purchase yearly?—A. I do not know.

Q. You could not even state approximately?—A. It is very difficult.

Q. What proportion of the purchases are made by the dealers?—A. The largest proportion—half and half—it is rather difficult to answer that question.

Q. These dealers who purchase tobacco from the growers do so in competition with the tobacco manufacturers?—A. We have not seen very much competition in the last few years; there are possibly five or six purchasers.

Q. Is that competition favourable to the growers? Is there any such thing as competition?—A. Certainly.

Q. Should these profits be eliminated by the imposition of a tax of 20 cents a pound, that would be very detrimental to the growers, would it not? —A. Well, certainly, but possibly 75 per cent of the small growers would be eliminated, but those who remain in the business, in the growing business—

By the Chairman:

Q. You said the small growers would be eliminated; do you mean small buyers?

Mr. BOULANGER: Dealers

The WITNESS: Yes, small dealers.

By the Chairman:

Q. Small dealers?—A. Not only small dealers, but some fairly substantial, big dealers.

Q. The dealers would be eliminated?—A. Yes, the traders—the dealers would be eliminated.

By Mr. Boulanger:

Q. Would the elimination of the dealers not place the control in the hands of the large manufacturers?—A. That is a means of eliminating the retailer in the raw leaf tobacco business.

Q. As another result, would the imposition of such a tax not compel the consumers to cease smoking raw leaf tobacco, and then have to go to the manufacturers for prepared or processed tobacco?—A. That is rather difficult to answer. The suggestions I have to make are in the best interests of the grower, the dealer and the manufacturer, if I may be allowed to give them.

The CHAIRMAN: Let him proceed with his suggestions.

The WITNESS: I had reached the stage where I was speaking of the growing of only one variety of tobacco on one particular farm. In the third place, if it were possible for the growers to secure better credit facilities at the bank. That is, the sale of tobacco would be controlled under a permit system.

By Mr. Sommerville:

Q. A licence system?—A. Yes, a licence system.

By the Chairman:

Q. That is, the growing?—A. The sale.

By Mr. Senn:

Q. Who would be licensed, the buyers? Would you license the buyers?—A. The permit would apply to every person processing tobacco. The Quebec legislature passed an act recently which tends to improve the quality of the product. The law requires that the name of every dealer, or each dealer, shall be placed on the package, or rather, the tobacco.

By Mr. Baribeau:

Q. Mr. Marion, should the name of the grower or vendor appear on the package that is sold over the counter?—A. The name of the person who processes the tobacco or sells it, should appear on the package.

By Mr. Sommerville:

Q. Not the producer?—A. Not the producer, no; the person who processes the tobacco or retails it. This act is a good beginning, but I see in it two defects. No law is perfect. The first requirement is that the package shall indicate whether this product is from Quebec or Ontario. There should be an indication on the label that it is from Ontario or Quebec; the genuine name of the variety. The act makes no reference to the quality or the grade. The act states that the package must contain the name and address of the dealer or retailer. That is quite satisfactory. I would suggest that every dealer pay a fee or licence.

By the Chairman:

Q. You mean the dealer who buys from the grower?—A. The dealer. While to-day the grower of an inferior brand of tobacco is required under this act to put a label on the tobacco. This act would tend to favour the grower of inferior tobacco to the extent that while the act requires the mentioning of the genuine name of the variety, there is no reference to the quality of the tobacco itself.

Q. That, you think, ought to be indicated?—A. Yes, certainly, the quality should be indicated. I know of cases where certain farmers, in order to improve their situation, and acting, perhaps, in good faith, have labels printed. On those labels appear the names, sometimes, of their children or grandchildren. But I blame the dealers more than I do the farmers in connection with this practice. While they were required seemingly to comply with the act, the label should have had a permit number on it. There should have been a permit number on the label. If there were a permit system, if the dealer or retailer were licensed, and the producer was not satisfied with the prices which that dealer or retailer offered he could take out a licence himself and retail his product.

The CHAIRMAN: Have you any other suggestions to make?

The WITNESS: I have no other suggestions to make.

Mr. BARIBEAU: Are there any companies which purchase tobacco in Joliet, Berthier, L'Assumption and Montcalm counties which are controlled by the large or the big tobacco companies?

The WITNESS: It is rather difficult to answer that question because sometimes the dealers or the agents are big dealers.

The CHAIRMAN: Quite so.

The WITNESS: I only see the outside. I do not know the inner workings.

The CHAIRMAN: Quite so.

Mr. YOUNG: In this brief it states you expect soon to grow cigarette tobacco. We had evidence from the Ontario cigarette growers that they had a natural monopoly. I want to know on what grounds you base your hope.

The WITNESS: Well, I agree with the memorandum I read. I did not draft it and I do not believe the climatic conditions in our district favour the growing of cigarette tobacco, but, however, the provincial government through its agricultural representatives has been making certain experiments with fairly satisfactory results.

By Mr. Boulanger:

Q. I understand that a witness stated before this committee that a tobacco dealer purchasing tobacco in your district said that the tobacco was only trash or remnants?—A. I believe that the witness was ill-informed.

Q. As a rule, Mr. Marion, when you purchase tobacco from a producer you purchase his whole crop including good, average and bad tobacco?—A. To answer the first part of the question I must state that in January, the first man—the first dealer or purchaser to go on the road and start purchasing tobacco was an agent or a representative of the Imperial Tobacco company and he was offering 2 cents a pound for common tobacco, that is, tobacco of the 1933 crop, and he was not purchasing any good tobacco.

The CHAIRMAN: He was purchasing only inferior grades?

The WITNESS: He was purchasing inferior tobacco, and he was only purchasing that tobacco and paying 2 cents a pound.

Mr. BOULANGER: And he was the agent of the Imperial.

The CHAIRMAN: That is 1933.

Mr. Boulanger: In January last he was purchasing?

The Witness: This dealer started to purchase tobacco in January, 1933, of the 1932 crop. I do not know that that agent was purchasing that tobacco —that dealer was purchasing that tobacco for himself—at all events, he was an agent or representative of the Imperial Tobacco company.

By Mr. Baribeau:

Q. Would you tell me what was the total production of tobacco for 1932-33 in Berthier, L'Assomption, Joliette and Montcalm counties?—A. If I judge by the reports made by certain agricultural representatives who made a survey in the district the total production amounted to about 4,000,000 pounds. Personally, I think the production was larger.

Q. I am advised that the production is larger; that it is about ten or twelve million pounds?—A. Well, tobacco is produced in a large area—not only within the limits of those four counties.

By Mr. Boulanger:

Q. What would be the effect of the imposition of a general or flat tax of 20 cents on all varieties of loose tobacco? Would it increase the price which the consumer would have to pay?—A. Yes, it would increase the price and the imposition of that tax would not tend to improve the quality of the tobacco grown.

Q. Would that tax be in the interest of the producer?—A. Not at all.

Q. In these times of depression would you be in favour of doing anything that would cause or compel the farmer smoking leaf tobacco to give up smoking that tobacco and start to smoke cut tobacco?—A. Certainly not. There are not only farmers who smoke that tobacco; other people smoke it as well.

The Chairman: Thank you very much indeed, Mr. Marion.

Witness discharged.

Charles Frenette, called and sworn.

By Mr. Parry:

Q. You represent the growers in the counties of St. Charles and Bellechasse? —A. I beg your pardon. I do not represent any growers.

Q. In what capacity are you making representations?—A. I can supply the committee with certain information regarding the prices I paid for tobacco purchased from the growers.

The Chairman: Is he a dealer or a buyer?

Mr. Boulanger: A dealer.

The Witness: I am a dealer. From the 1st of January, 1933, to 31st December, 1933, I purchased from the farmer approximately 807,000 pounds.

Mr. Baribeau: What amount?

The Witness: 807,000 pounds; and the average price which I paid to the farmer in 1933 was $5\frac{1}{2}$ cents a pound. I also purchased approximately 100,000 pounds from the co-operative organization.

The Chairman: For whom were your purchasing?

The Witness: Myself.

By the Chairman:

Q. To whom do you sell?—A. I sell quite a large quantity to the retailers, approximately 90 per cent.

Q. In what form?—A. I sell the leaf tobacco.

Q. The raw leaf?—A. The raw leaf. I purchased 800,000 pounds in 1933 and the average price I paid the farmer is 5½ cents. In regard to the tobacco I purchased from the co-operative society of the district, I purchased about 50 per cent for 4½ cents, and about 50 per cent of armomatic tobacco at 7 cents.

Mr. EDWARDS: Of what quality is this tobacco that he pays from 4 to 6 cents for?

The WITNESS: It was tobacco of a good quality.

The CHAIRMAN: No flue-cured or cigarette tobacco at all?

The WITNESS: None of the tobacco was processed.

By Mr. Sommerville:

Q. That is cigar or pipe tobacco?—A. I purchase only pipe tobacco.

Q. What do you call aromatic tobacco; is that pipe tobacco also?—A. That is also pipe tobacco. Here is a statement of the tobacco sold in 1933.

Q. 708,066 pounds. At what price do you sell it? A. I sold it at an average price of 11½ cents.

Q. At an average price of 11½ cents?—A. Yes.

Q. After buying it, do you put it in packages and label it, or do you sell it in bulk?—A. The processing cost me two cents a pound, and then there are freight charges, because I do not live in the district where I purchased the tobacco.

Q. In what manner do you process the tobacco?—A. Well, we process it by steaming it, and putting it up in small bundles, a pound, or half a pound.

Q. When you purchase that tobacco from the growers, you purchase it in large bales? What is the weight of those bales?—A. It is 10, 25 and 50 pounds. We undo those bales and steam the tobacco.

Mr. BOULANGER: In order to prevent breakage?

By Mr. Sommerville:

Q. Was there anything else you wanted to present to the committee?—A. I have no personal representations to make, but I saw a memorandum which I believe was prepared by a notary, and I agree with—

The CHAIRMAN: With what Mr. Marion says?

The WITNESS: With the suggestion. I agree with him when he says that he is opposed to the imposition of a special tax, but I might not agree with him in all other details, because some of those details are somewhat complicated.

By Mr. Boulanger:

Q. Last year you purchased 800,000 pounds from the growers, 100,000 pounds from the co-operative society of Joliette, and 50,000 pounds from dealers generally. Then your total purchases in 1933 would aggregate 950,000 pounds? —A. Yes.

Q. What quantity of tobacco did you purchase in 1932?—A. About 600,000 pounds.

Q. What quantity did you purchase in 1931?—A. About the same quantity. I purchased about the same quantity in 1930, but I purchased a larger quantity last year because I found the prices were more satisfactory.

Q. How long have you been in this leaf tobacco business?—A. For the past 32 years.

Q. As a rule, do you purchase about the same quantity every year?—A. Well, I used to purchase far less years ago. I only recall the first year when I purchased 50,000 pounds, and last year when I purchased the quantity I have mentioned.

Q. How many tobacco dealers like yourself purchase tobacco in the Joliette district?—A. It would be rather difficult to say; there might be 25 or possibly 30.

Q. Can you say approximately what quantities these dealers purchase every year from the growers?—A. It would be rather difficult to estimate the quantity.

Q. Can you state what proportion of the tobacco produced in that district was purchased by dealers?—A. The yield and production in the Joliette district would amount to about eight or ten million pounds.

Q. Have you any idea what portion of that production dealers like yourself would purchase in that district?—A. It would be difficult to say. I would like to tell the committee if I cannot give more information, it is due to the fact I am unable to read or write.

Q. Mr. Frenette, you heard the questions that I put to the previous witness —Mr. Marion—and you also heard his answers, so I need not repeat those questions. Are you in general agreement with what Mr. Marion said?—A. Well, I agree with him when he states that he is opposed to the tax of 20 cents on tobacco. I am absolutely opposed to that tax. Such a tax would be detrimental both to the growers and the consumers, because the growers stand to benefit to a greater extent when 25 or 30 or more dealers are competing one against the other for their product.

By the Chairman:

Q. What proportion of the tobacco that you buy is sold back to the people in bunbles without paying the tax?—A. I sell all my tobacco without being required to pay a tax.

By Mr. Baribeau:

Q. When you purchase tobacco in the districts where you deal do you meet with any competition from the Imperial Tobacco Company, or any other large manufacturers?—A. Well, I cannot purchase to the same advantage as those companies because I do not live in those districts, and the companies as a rule, have an agent or representative on the spot; and the average price I paid for the tobacco I purchased in 1933—5½ cents—bears me out in that regard.

Q. Is there an overproduction of tobacco in your district?—A. I do not think so.

The CHAIRMAN: Are there any further questions, gentlemen?

By Mr. Boulanger:

Q. Just one question, Mr. Frenette. What do you think of Mr. Roch's statement, that the dealers purchase only very inferior tobacco?—A. My answer to that will be found in the quantities of tobacco that I purchased from different parties.

By Mr. Sommerville:

Q. You have already said you buy good tobacco.—A. Yes. One would have to obtain the average prices paid in that district to determine whether the growers were paid a higher price than I paid to them. The price I paid for the tobacco I purchased was larger than the price received by the growers from this co-operative organization.

The CHAIRMAN: Now, are there any other questions gentlemen? Thank you very much Mr. Frenette.

Witness discharged.

Ernest Forest, sworn.

By Mr. Sommerville:

Q. You are a notary of L'Epiphanie, Mr. Forest?—A. Yes.

Q. And that is in the heart of the tobacco country?—A. Yes.

By the Chairman:

Q. Do you wish to speak in English?—A. I would much prefer to speak in French. It will be better for you and better for me.

By Mr. Sommerville:

Q. I think you thoroughly understand our questions, Mr. Forest. Will you present your views with respect to the conditions and the suggested improvements for the conditions in the tobacco industry in your area, please.—A. Whatever suggestions I have to make are contained in the memorandum, of which this is a translation.

By the Chairman:

Q. The same one as Mr. Marion presented?—A. Yes. This is the memorandum which was read by the previous witness.

Q. Do you agree with the memorandum which Mr. Marion submitted to the committee?—A. I approve of it. It is the memorandum I prepared a draft of.

The Chairman: If any of the other gentlemen of the committee wish to examine on the memorandum, they are at liberty to do so.

By Mr. Young:

Q. Do you agree with this statement in the memorandum, that you can grow cigarette tobacco in your country?—A. Yes. The ability to produce cigarette tobacco in our district was proven last year in my own parish, that is, representatives, agricultural experts from the Experimental Farm made a successful experiment.

By Mr. Senn:

Q. But it has not been grown on a commercial scale, I understand?—A. No. What tobacco is grown is more as an experiment. This year though, Mr. Montreuil advises me that he is going to construct a dryer in my district.

Q. Is the acreage extensive on which it can be grown there?—A. There is a large acreage from what I understand, from what I am told. I can understand that the Ontario growers do not approve whole-heartedly of this inundation; but in our district this production will be largely what one might call a home production, a family enterprise, so the production will never be undertaken on an extensive scale.

Q. Why not, if you can do it and get so much for it?—A. Because we have no large land owners in our district. The average farm contains about 100 acres. The farmer has to make his living out of that farm and diversify his production to some extent, and he has ten acres which he sets aside for the growing of tobacco.

Q. He will never consume 10 acres of tobacco in his own family, he will surely have some to sell.

The Chairman: He would not consume all his milk either.

The Witness: Obviously not. This tobacco that is grown is for the trade.

By Mr. Young:

Q. The cigarette tobacco that he is going to grow, is that for his own use or for the trade?—A. Obviously it is for the trade.

The CHAIRMAN: Local use, Mr. Young, is what he says.

By Mr. Young:

Q. Will it go into the market?—A. It is for the market, general trade.

The CHAIRMAN: Are there any other questions, gentlemen?

By Mr. Boulanger:

Q. Do you agree with the views of the two previous witnesses who stated their opposition to the tax of 20 cents?

The CHAIRMAN: I have a suspicion that Mr. Boulanger does not agree with that.

The WITNESS: I have been fighting this tax proposition for the last ten years.

By the Chairman:

Q. You are absolutely opposed to it?—A. Absolutely.

By Mr. Boulanger:

Q. Is there any general feeling of opposition to that tax in your district?—A. Certainly. The only setback comes from those petitions which our people were induced to sign without full knowledge of the facts, and which they signed when conditions were considerably depressed.

By the Chairman:

Q. You also assert, do you, that the petitions were signed under a misunderstanding?—A. Certainly; they were deceived because that is what induced them to sign a counter petition. They felt they were deceived so they signed a counter petition.

The CHAIRMAN: Are there any other questions? Thank you very much, Mr. Forest.

Witness discharged.

VICTOR CHARTRAND, sworn.

By Mr. Sommerville:

Q. What are your qualifications, Mr. Chartrand?—A. Vice-President and General Manager of Forest Limited, cigar manufacturers.

Q. Where are you from?—A. L'Epiphanie.

Q. And you manufacture a large quantity of cigars per year?—A. I at one time manufactured as many as 7,000,000 cigars in one year.

Q. You are an independent manufacturer then?—A. Yes, sir.

Q. Well now, what has been your experience, Mr. Chartrand, in your sale of the cigars, and your competition, your conditions?—A. Some years ago we manufactured 5,000,000 or 6,000,000 cigars a year. Last year I manufactured 1,100,000.

By Mr. Factor:

Q. Do you manufacture by machine or by hand?—A. By hand.

By the Chairman:

Q. What happened to reduce your output?—A. Because of the influence or pressure exerted by the Imperial Tobacco Company on our jobbers, retailers and dealers; our production is lessened.

Q. Will you please explain what you mean by influence?—A. From what the jobbers state. The jobbers say that the Imperial Tobacco Company more or less compel them to carry the Imperial Tobacco Company line of goods.

Q. We want to get that clear. Did the jobbers inform you that they cannot buy your stock because the Imperial Company objects to them carrying other than Imperial Tobacco Company's stock?—A. They do not tell us openly but they give us that impression, in more or less veiled terms.

Q. And they will refuse to buy?—A. Yes, they refuse to buy.

Q. That is pretty effective, is it not?

By Mr. Baribeau:

Q. You sell all your output through the jobbers?—A. Yes, to the jobbers.

By Mr. Sommerville:

Q. And your production has been reduced from 5,000,000 or 6,000,000 five years ago to a million and a half last year?—A. Yes, sir.

By Mr. Factor:

Q. Do you have any difficulty in advertising your product in competition with the Imperial product, that is, difficulty in having your products advertised in competition with Imperial.—A. Certainly.

By Mr. Sommerville:

Q. What are the difficulties?—A. One difficulty is, that when we put up any advertisements or posters they are removed. We are told that the travellers who visit these different shops to sell place their own posters over ours.

Q. That is, the posters you are referring to, the circulars or the advertising you are referring to is advertising in the stores of the merchants that are selling your goods?—A. Yes. These signs or posters are of metal, and they might be placed on the inside of the store or outside, or on doors, or around the premises within and without.

By Mr. Factor:

Q. Has any merchant complained to you that a traveller of the Imperial Tobacco Company forced him to take down your sign?—A. I have no personal knowledge, but the merchants tell me that the Imperial Tobacco Company representative visits or calls on those stores and simply tacks up his own advertising sign over mine and the merchant says "What can I do about it."

Q. Has that merchant ever received a threat from that representative that he cannot get Imperial products unless he is permitted to do that?—A. Well, the statement is repeatedly made but we cannot prove it. It is hard to prove it.

By Mr. Kennedy (Winnipeg):

Q. Did the representatives selling their products ever reciprocate in the same spirit, by putting your signs up over the other fellow's?—A. No, we would be killed.

Q. I know that is done in an election campaign.

The CHAIRMAN: Well, this is not an election.

By Mr. Sommerville:

Q. Have you found, Mr. Chartrand, that on occasions merchants have been required to take your goods from a prominent position and put them behind the counter or under the shelf?—A. Thousands and thousands of times that has been done.

The CHAIRMAN: Good Lord.

By Mr. Sommerville:

Q. That is a general practice?—A. The general practice all over.

Q. And that is required by the Imperial Tobacco Company's representative?—A. That is what we are told.

By Mr. Factor:

Q. Do you know of any agreement that the Imperial representative exacts from the merchant to display Imperial products to the extent of 80 per cent?—A. I do not know whether there is any understanding or agreement, but I know that the merchants are compelled to do it.

By Mr. Sommerville:

Q. Have you had, or do you know of, a case in which window displays of your goods have had to be taken out and Imperial put in at the request of the Imperial Tobacco Company?—A. We never went in for any window displays.

By Mr. Boulanger:

Q. Mr. Chartrand, did you ever hear it said that the Imperial Tobacco Company compel merchants to make a monthly return to the Imperial Tobacco Company of the goods or lines sold by competitors—goods of their competitors which the merchant sells?—A. I have heard said, that I could offer no proof in that regard.

The CHAIRMAN: Are there any other questions?

The INTERPRETER: He says he has one last statement to make.

The WITNESS: Some years ago the Imperial Tobacco Company approached him with the intimation, or told him, that his company would have to sell out to the Imperial Tobacco Company. He said he would not sell out. The Imperial Tobacco Company told him that he would have to dispose of his enterprise on their own terms, because they were going to set up an establishment at that point where the witness had his own plant or business.

By the Chairman:

Q. In opposition?—A. In opposition.

By Mr. Kennedy (Winnipeg):

Q. When was that?—A. I could not state definitely, it was around about 1923.

Q. They have set up a factory in opposition?—A. They have set up a factory, and said to me, if you do not sell you will be out of the market.

Mr. FACTOR: Out of the picture.

By Mr. Boulanger:

Q. Did you ever hear that the Imperial Tobacco Company determined the quantity which a merchant was to buy from the Imperial Tobacco Company, and the proportion which the same merchant was to buy from the Imperial Tobacco Company's competitors?—A. I never heard anything to that effect.

By the Chairman:

Q. What brand of cigars do you make?—A. We manufacture cheap cigars. We have to do that. We make 2 for 5 cents, 3 for 10, and 5 cent cigars.

By Mr. Factor:

Q. How much do you pay your workers for manufacturing 1,000 cigars?—A. On the two-for-five we pay cigar makers $3; on the three-for-ten, $4; on the five cent, $6 to $10.

Q. Let us get this right. You say that on the two-for-five you pay $3 a thousand?—A. Yes. On the three-for-ten, $4; and on the nickel cigars, $6 to $7.

By Mr. Sommerville:

Q. And they are all hand made?—A. Yes. And that is beside stripping, packing, wrapping, and everything like that; that is only the cigar makers.

By Mr. Boulanger:

Q. What proportion of Canadian tobacco do you use in the production of your cigars?—A. 96 per cent is Canadian tobacco.

By Mr. Edwards:

Q. What is the average quantity of cigars a man will make in a day, say 5-cent cigars; how many will he make in a day—A. I could not give you an average, because that depends on the speed and ability of the operator.

Q. Will he make a thousand?—A. No.

Q. Half a thousand?—A. Make about 400 to 500 cigars in a day.

Q. So he will make about $3.50 to $4 a day?

By Mr. Ilsley:

Q. Is your help all male help?—A. We employ girls, women, boys and men.

By Mr. Sommerville:

Q. Just a moment, I want to ask you a question: you said the Imperial said you had to sell out—what further was said about that, or what notice was given to you at the time when they were pressing you to sell out?—A. One of the managers, Mr. Levine, sent for me and told me that they were going to establish themselves in my town and I would have to sell.

Q. And did he say on what terms you would have to sell?—A. No, you have to sell—that is all.

Q. Did he say to you, take your inventory to-night we are going to take you over?—A. He simply said, you will be well advised to sell out.

By Mr. Factor:

Q. Can you tell me how much it costs to pack the cigars, say the nickel cigars?—A. Nickel cigars would be $1; this includes wrapping and cellophane.

Q. The dollar includes packing, banding and cellophane?—A. No, no, not banding, wrapping in cellophane and packing in a box.

Q. A dollar a thousand?—A. A dollar a thousand.

By Mr. Senn:

Q. Mr. Chartrand, do you purchase your supplies directly from the producer or from the dealer?—A. I buy my supplies from the grower.

Q. Would you be in favour of the suggestion made in favour of this recommendation, that it would be better to do it by public auction than in the way it is done at the present time?—A. Under present conditions it is almost impossible to purchase what might be termed a uniform variety of tobacco. The suggestion I would make would be that the government should control the tobacco business through some method of classification, but without levying any tax whatever on the tobacco.

By Mr. Baribeau:

Q. You are opposed to the tax of 20 cents a pound?—A. Certainly. If this tax were put on tobacco, there would not be the same freedom regarding

trade and production. Why should people be required to pay 20 cents to 30 cents more a pound if the leaf tobacco were classified and cut; the Imperial Tobacco Company would have complete control, as it has it to-day, on cigars and cigarettes.

The CHAIRMAN: Thank you, Mr. Chartrand.

Witness discharged.

(The French version of the foregoing evidence of Messrs. Joseph Marion, Charles Frenette, Ernest Forest and Victor Chartrand follows immediately.)

M. J.-C. BEAUCHAMP est assermenté comme interprète:

M. JOSEPH MARION est appelé et assermenté.

M. Sommerville:

D. Monsieur Marion, vous êtes de Saint-Jacques-l'Achigan?—R. Oui monsieur.

D. Vous représentez les producteurs de tabac de votre région?—R. Oui monsieur. C'est-à-dire que je fais le commerce du tabac en feuilles et je suis cultivateur moi-même.

D. Voulez-vous exprimer votre opinion au comité sur la situation générale du tabac dans votre région ou dans la province de Québec?—R. Il me fait plaisir de paraître devant ce comité, dans l'intérêt commun comme dans mon propre intérêt. Le commerce de tabac canadien dans la province de Québec, surtout dans notre région, n'est pas prospère, c'est-à-dire que le producteur a de la marchandise en main qu'il ne peut pas vendre.

Le président:

D. Du point de vue du producteur?—R. Oui, du point de vue du producteur. Les bas prix, qui ont été payés depuis 1924, ont contribué certainement à nuire au producteur, qui a continué à produire, et malheureusement, depuis trois années consécutives, nous avons des mauvaises récoltes de tabac. Les gros manufacturiers, l'Imperial Tobacco, achetaient en 1921 une partie des tabacs que les producteurs avaient en mains à cette date. L'après-guerre avait certainement contribué à faire baisser les prix de cette marchandise, comme d'ailleurs le prix des autres marchandises. En 1924, dès le début de 1924 et de 1925, les prix sont devenus meilleurs. L'Imperial Tobacco avec d'autres grosses compagnies, comme la Rock City Tobacco, avaient favorisé les producteurs par des achats assez considérables. La concurrence entre les manufacturiers, entre les manipulateurs a avantagé le producteur en 1924. Depuis cette date, il n'y a pas eu d'achats considérables de faits par les gros manufacturiers. Probablement qu'ils se sont approvisionnés ailleurs. Ontario, peut-être plus habile que Québec, je ne sais pas, s'est mis à augmenter sa production.

M. Sommerville:

D. De quelle sorte de tabac en feuilles parlez-vous, M. Marion?—R. Je veux parler du tabac à pipe surtout, et je veux parler aussi du tabac à cigare, de la qualité que nous appelons le "Comstock".

D. Le comité voudrait que vous examiniez ces chiffres, M. Marion, il s'agit de tabac à cigare et en feuilles. Les prix moyens payés en 1928 étaient de 11.3 c.; en 1929, de 15c.; en 1930, de 9c.; en 1931, de 5c.; en 1932, de 4c. Maintenant vous avez le tabac à pipe, le gros tabac, en 1928, le prix moyen était de 8.2c.; en 1929, de 12c.; en 1930, 10c.; en 1931, 5c.; en 1932, 3c. Maintenant voulez-vous les prix du petit tabac?—R. Oui.

D. En 1928, 27.8c.; en 1929, 24c.; en 1930, 16c.; en 1931, 8.5c.; en 1932, 7c. On vous demande maintenant si les prix moyens du rapport officiel du Gouvernement représentent à peu près le fléchissement ou la diminution dans les prix du tabac dont vous parlez?—R. Vous avez, vous, en 1928, combien?

Le président:

D. La variation est bien minime?—R. Il y a une différence dans les prix que j'ai payés moi, pour faire mon commerce.

D. Ces chiffres sont-ils à peu près exacts?—R. Vous avez en 1931, combien, 4c.?

D. 5c.—R. La majorité du tabac produit dans la province de Québec, qui était de bonne qualité, s'est vendu plus cher que cela.

D. Ces prix-ci représentent les prix moyens de toute la province de Québec, pour ces trois qualités, vos chiffres se rapportent peut-être à la production dans votre région?—R. Oui. Mais vous avez des années où la moyenne est de 4c. la livre pour du tabac de première qualité.

Le président:

D. En quelle année?—R. En 1932.

D. Occupez-vous seulement de votre district, donnez-nous les prix de 1929 et de 1933 seulement.—R. En 1929, les prix dans ma région étaient de 4c. à 13c. la livre, 4c. pour ce que nous appelons qualité inférieure. Lorsque nous achetons une récolte de tabac il y a toujours environ 20 p. 100 du tabac qui est de qualité inférieure et que nous payons un prix moindre.

D. Est-ce la feuille à cigare ou le tabac en feuilles?—R. Je parle des deux qualités de tabac; en 1929, la moyenne payée fut de 4c. à 13c. la livre.

M. Sommerville:

D. Maintenant, en 1933?—R. En 1933, c'était de 3c. à 8c. la livre.

D. Continuez votre exposé, monsieur Marion.—R. Ces messieurs tiennent à trouver les raisons pour lesquelles le tabac est stationné chez les cultivateurs. Avec les prix qui sont offerts, il ne peut certainement pas le vendre et rencontrer ses dépenses, faire honneur à ses affaires. Premièrement, par le fait que les gros manufacturiers ont cessé d'acheter. Deuxièmement, la ligne de crédit a été retirée par les banques. La ligne de crédit que le cultivateur avait obtenue autrefois lui permettait de garder son tabac dans l'espérance de trouver un meilleur marché. Les cultivateurs qui autrefois avaient une ligne de crédit à la banque ont été obligés de vendre leur récolte à sacrifice pour rencontrer le coût de la production.

D. Etes-vous redevable à la banque, à cause de l'attitude des banques au sujet de la ligne de crédit? L'attitude des banques et la diminution de la ligne de crédit influencent-elles la production?—R. Seulement, un grand nombre de cultivateurs avaient des facilités par les années passées, ils obtenaient toujours un certain montant de la banque, je suppose en donnant leur tabac en garantie.

D. Est-ce qu'il existe un système, dans la province de Québec, en vertu duquel les marchands ou les commerçants d'engrais chimiques prennent une hypothèque ou obtiennent une garantie sur le tabac qui est produit?—R. Non.

D. Continuez à exposer vos vues, M. Marion.—R. Les cultivateurs qui, auparavant, obtenaient une ligne de crédit à la banque ont été obligés de vendre leur récolte à sacrifice afin de rencontrer leurs affaires. Pas tous les cultivateurs, mais un grand nombre ont été forcés de vendre à un prix de 2c., 3c., et quelquefois 4c. la livre.

M. Baribeau:

D. Est-ce qu'il y a une grande quantité de tabac de la dernière récolte qui n'est pas encore vendu?—R. Il y en a quelques millions de livres, de vieux tabac, je ne pourrais pas mentionner les chiffres exacts. Cela, c'est du vieux tabac, de 2, 3 et même 4 ans.

D. Qui est encore en entrepôt?—R. Oui.

M. Sommerville:

D. Ce tabac est-il entre les mains des cultivateurs ou des compagnies?—R. La plus grande partie est encore entre les mains des cultivateurs, et une partie est entre les mains des manipulateurs.

M. Baribeau:

D. Est-ce que la proportion de tabac à pipe non vendu est plus grande que la feuille à cigare?—R. C'est certain que la proportion de tabac à pipe est plus grande par le fait que nous avons eu de mauvaises récoltes et qu'il est impossible d'employer ce tabac-là pour faire des cigares. Par conséquent, ce tabac reste entre les mains des cultivateurs qui attendent de meilleurs prix. Il est impossible de le vendre aujourd'hui.

M. Sommerville:

D. Continuez votre exposé.—R. Maintenant, depuis plusieurs mois surtout, le commerce fut immobilisé. Il s'est fait une campagne, par les gros manufacturiers. Ils faisaient signer des requêtes par les cultivateurs, pour l'imposition d'un droit de 20c. par livre, sous le prétexte que cette taxe...

D. Sur le tabac en feuilles?—R. Oui monsieur... un droit de 20c. par livre sur tout le tabac en feuilles qui se détaillerait, qui serait vendu soit par le manipulateur ou par le consommateur, c'est-à-dire, sur toute vente de tabac en feuilles il y aurait un droit de 20c. par livre.

Le président:

D. Quelle est votre opinion sur ce point?—R. Les producteurs qui signaient ces requêtes le faisaient sous la sollicitation et sous le prétexte que cette taxe améliorerait la vente de leur tabac.

M. Boulanger:

D. Qui vous a fait des représentations au sujet de cette taxe?—R. Dans notre région, c'était contrôlé par un agent de l'Imperial Tobacco.

M. Baribeau:

D. Croyez-vous que les grosses compagnies ont quelque intérêt à faire imposer cette taxe sur le tabac?—R. Si je m'en rapporte aux déboursés que les agents, les acheteurs de l'Imperial, faisaient dans notre région, ils ont dû obtenir 10c. par nom pour recueillir les signatures.

M. Boulanger:

D. Maintenant, M. Marion, avez-vous une idée du nombre de personnes qui ont signé ces requêtes?—R. Sur les représentations qui leur ont été faites, beaucoup de producteurs ont signé ces requêtes, seulement ils n'avaient pas beaucoup de renseignements. L'idée était que c'était pour éliminer le petit cultivateur ou le petit commerçant qui offre au consommateur du tabac de qualité inférieure.

M. Baribeau:

D. Est-ce à votre connaissance qu'il y a eu des contre-requêtes signées?—R. Oui monsieur.

Le président:

D. Que pensez-vous, vous-même, au sujet de cette ligne de conduite? De l'imposition de cette taxe?—R. La manière dont ils ont procédé me répugne. Il est vrai que la requête qu'on présentait contenait des détails, mais le producteur qu'on sollicitait ne se donnait pas le trouble de lire ce qu'il y avait sur cette requête, à cause des représentations verbales que faisait le solliciteur.

M. Baribeau:

D. Etes-vous en faveur de l'imposition d'une taxe telle que proposée?—R. Voici: en réalité cette taxe frappe le consommateur, elle frappe celui qui veut avoir une qualité supérieure comme celui qui est obligé de se contenter d'une qualité inférieure. C'était 20c. la livre sur toute livre de tabac qui allait sur le marché.

Deuxièmement, les petits, les marchands moyens auraient pu difficilement disposer du capital pour mettre cette taxe de 20c. par livre sur chaque livre de tabac qui aurait été sur le marché. Cela en éliminait un grand nombre.

M. Sommerville:

D. L'avocat du comité vous signale qu'il a en main plusieurs requêtes portant des milliers de signatures de gens opposés à l'imposition de cette taxe.

M. Ilsley:

D. On a payé 10c. par nom pour induire les gens à signer la requête et non pour signer la contre-requête?—R. Pour signer la requête. On ne payait pas 10c. à celui qui signait, on payait 10c. au solliciteur,—pas à celui qui était sollicité, au solliciteur.

M. Edwards:

D. Qui payait ce 10c.?—R. L'agent de l'Imperial Tobacco, M. Fontaine.

M. Ilsley:

D. Est-ce qu'on vous a exposé ou expliqué comment l'imposition de cette taxe d'accise de 20c. aiderait le producteur?—R. Oui, en ce sens que l'agent de l'Imperial Tobacco et ceux qui sollicitaient des noms de porte en porte leur disaient que, si la taxe de 20c. était appliquée, tout de suite ils achèteraient la balance de leur tabac à un prix supérieur.

M. Kennedy (Rivière-la-Paix):

D. Ont-ils acheté le tabac?—R. Non, parce qu'il y a eu des contre-pétitions. Quatre-vingt-quinze pour cent de ceux qui avaient été trompés, ou pas suffisamment renseignés, ou de trop bonne foi, ont signé les contre-requêtes.

Si vous voulez me le permettre, je m'en vais vous donner mon impression d'hier. En plus, ceux qui sollicitaient des signatures disaient: "Les producteurs de tabac de l'Ontario ont tout vendu leur tabac, ils sont bien payés, ils sont riches. Il y a quelques années, ils plantaient seulement quelques arpents de tabac; aujourd'hui ils en récoltent des millions et des millions de livres. Ils ont leur argent, ils sont bien heureux avec les grosses compagnies."

Hier, si j'ai compris quelque chose, il y a des producteurs qui n'ont pas été aussi favorisés, comme le disaient certains intéressés.

M. Ilsley:

D. A quelle époque a-t-on fait circuler ces requêtes dans votre région?—R. Ils ont commencé, je crois, dans le mois de janvier,—décembre ou janvier.

M. Sommerville:

D. Depuis les derniers six mois?—R. Oui.

M. Boulanger:

D. Il n'y a aucun doute, M. Marion, que ce ne sont pas les planteurs eux-mêmes qui ont parti le mouvement, mais que le mouvement a été parti par les manufacturiers de tabac?—R. Certainement.

M. Ilsley:

D. Comment l'imposition de ce droit d'accise aiderait-il les manufacturiers? —R. En ce sens que c'est de nature à faire disparaître un grand nombre de manipulateurs de tabac,—ils auraient le contrôle.

M. Kennedy (Winnipeg-Centre-Sud):

D. Est-ce que cette taxe aurait pour effet de limiter, ou de placer le contrôle de la préparation du tabac entre les mains des gros manufacturiers?—R. Bien, certainement qu'en éliminant tout ce qu'on appelle les petits et les moyens manipulateurs, les commerçants moyens de tabac, c'est de nature à donner tout l'avantage aux puissants, aux plus forts, aux très forts.

D. Est-ce cela qui poussait les individus à demander l'imposition de cette taxe, l'idée de concentrer le commerce entre les mains des grands manufacturiers? —R. Certainement.

M. Young:

D. Où ce petit commerçant avait-il l'habitude de vendre son tabac? A quel endroit le petit commerçant avait-il l'habitude de vendre son tabac—R. Au détail.

M. Baribeau:

D. Ne croyez-vous pas qu'en imposant une taxe de 20c. par livre sur le tabac en feuilles, cela favoriserait beaucoup la vente du tabac en paquets.—R. Vous me demandez, monsieur ?

D. Si l'imposition d'une taxe de 20c. par livre sur le tabac en feuilles favoriserait la vente du tabac en paquets?—R. Dans la province de Québec, vous savez que les gens sont habitués, pour un grand nombre, à fumer du tabac en feuilles.

M. Edwards:

D. Est-ce la qualité de tabac que vendent les colporteurs?—R. Les colporteurs vendent en partie du tabac en feuilles. C'est la raison pour laquelle je voudrais un contrôle, moi; depuis vingt-cinq ans, je voudrais un contrôle sur la vente du tabac en feuilles.

M. Factor:

D. Etes-vous en faveur de l'imposition de cette taxe?—R. Non, monsieur. Je puis donner beaucoup d'autres raisons.

D. Quel autre contrôle ou réglementation favoriseriez-vous, M. Marion?—R. La province de Québec nous a fait quelque chose; c'est un gros commencement: en janvier dernier, ils ont mis en vigueur une loi concernant la préparation et la vente des tabacs en feuilles.

M. Sommerville:

D. Nous venons de distribuer aux membres du comité un mémoire qui est censé avoir été soumis au comité par vous-même: Est-ce bien...

M. Barrette: Lisez-le à haute et intelligible voix. (Le témoin donne lecture au comité du mémoire suivant.)

> La demande que je viens mettre devant le comité d'enquête est la même que celle qui fait le fond des requêtes signées par les planteurs de tabac du district nord de Québec comprenant les comtés de L'Assomption-Montcalm-Berthier et Joliette;

Nous demandons qu'il ne soit pas imposée de taxe sur le tabac vendu en feuilles à d'autres qu'aux manufacturiers, que ce commerce ne soit pas prohibé.

La moitié de notre production se vend, en feuilles, à l'état brut, directement du producteur au consommateur, par l'intermédiaire des commerçants, sans passer par la manufacture. Comme cela représente une forte partie de la consommation de tabac de notre province, il s'ensuit que le manufacturier voudrait prohiber cette vente pour arriver à faire passer tout le tabac a pipe par la manufacture; c'est naturel, là est la lutte.

De son côté, le planteur tient a ce débouché, grâce auquel il a 15 et 20 acheteurs pour son tabac, au lieu d'un seul. L'enquête actuelle, au cours de laquelle le planteur de l'Ontario s'est plaint d'être à la merci du trust du tabac, n'est pas pour le faire changer d'idée.

On a dit ici même que la pipée de tabac canadien était passée de mode, qu'il fallait être de son temps; il serait curieux de faire une enquête auprès de nos députés fédéraux de Québec, on serait surpris—comme dans le cas du billet de loterie dont parlait M. Taschereau—de voir le nombre de sacs de tabac canadien naturel qu'il y a; et pourtant ils doivent être à la page...

Sans doute le commerce de tabac en feuilles, comme tous les autres, est affecté par la crise actuelle, mais il est bien évident que ce n'est pas en fermant un débouché pour une bonne partie de notre production que nous aurons une amélioration; nos planteurs veulent garder leur vente libre.

Nos suggestions ressemblent beaucoup à celles des planteurs de l'Ontario: organisation de la classification officielle au moyen d'un entrepôt central de séchage, de classification et de vente aux enchères publiques.

Nous avons trop de variétés de tabac; la classification en réduirait le nombre; la classification officielle et la vente aux enchères publiques donneraient un marché régulier et certifié pour nos tabacs à pipe, tabacs aromatiques et autres régulariseraient la production et la vente de nos tabacs à cigares, rendraient possible l'exportation d'une certaine quantité de ces tabacs; enfin c'est à peu près le moyen essentiel pour la production et la mise sur le marché des tabacs à cigarettes que nous espérons produire sous peu.

Dans notre district, la culture est à base familiale; nous pouvons nous contenter de prix ordinaires et y trouver notre profit; qu'on nous laisse notre marché libre de tabac en feuilles; qu'on nous aide à organiser un poste de séchage, de classification et de vente aux enchères et notre industrie remontera la côte.

Et sur ces terrains, nous rejoignons les demandes formulées par les planteurs de l'Ontario.

M. Boulanger:

D. Monsieur Marion, à part d'être un planteur de tabac, je comprends que vous êtes aussi un commerçant de tabac?—R. Oui, monsieur.

D. Pouvez-vous dire approximativement combien de livres de tabac vous achetez des cultivateurs, par année?—R. En 1929, j'ai acheté près d'un million de livres de tabac.

D. Des planteurs?—R. Des planteurs de tabac.

D. En 1930?—R. En 1930, j'ai acheté seulement environ 400,000 livres de tabac.

D. Les années suivantes?—R. L'an dernier...

D. Avez-vous 1931?—R. 1931, je ne l'ai pas.

D. Avez-vous 1932?—R. Depuis 1932, j'ai réduit mon commerce, j'ai été dans l'obligation de le réduire parce que, à cause des bas prix, le cultivateur s'en va vendre lui-même son tabac, malheureusement.

M. Baribeau:

D. Est-ce que cela veut dire que vous aviez moins de vendeurs, que moins de tabac vous était offert?—R. A cause des bas prix. C'est la raison pour laquelle je veux un contrôle, c'est une des raisons pour lesquelles je veux un contrôle, si c'était possible, sur la vente des tabacs en feuilles. Mais il n'est pas nécessaire, pour contrôler la vente du tabac en feuilles, d'imposer une taxe de 20c. par livre.

D. Voici où je veux en venir: Vous dites qu'en 1930 vous avez acheté un million de livres de tabac?—R. En 1929.

D. En 1930, vous en avez acheté 400,000 livres?—R. Oui.

D. Pour quelle raison en avez-vous acheté 600,000 livres de moins en 1930?—R. En 1929, nous payions le tabac de 4 à 13c. la livre et le cultivateur trouvait qu'il était assez rémunéré, il nous le vendait; mais, depuis, par le fait que les gros manufacturiers n'ont pas pu acheter, les prix ont diminué et la vente du tabac en feuilles n'étant point contrôlée, le cultivateur, le producteur, qui ne trouvait pas les prix offerts suffisants, fait l'essai d'écouler sa marchandise lui-même.

Le président:

D. Quelle sorte de contrôle proposeriez-vous pour améliorer la vente du tabac?—R. La fixation d'un prix minimum pour la première qualité. Deuxièmement, la plantation d'une seule variété sur une même ferme. Il y a des cultivateurs qui plantent cinq ou six variétés de tabac; ils cultivent cinq arpents de tabac et ils plantent cinq variétés de tabac.

M. Edwards:

D. Dans votre mémoire, vous dites qu'il y a trop de variétés de tabac sur le marché?—R. Ce n'est pas mon mémoire, cela.

D. Dans le mémoire que vous avez lu?—R. C'est le mémoire d'un ami.

D. Un mémoire a été présenté au comité l'autre jour au nom de l'Imperial Tobacco. Dans ce mémoire, l'Imperial Tobacco suggère de limiter la variété des tabacs cultivés et cette compagnie mentionne certaine variété particulière de tabac qui devrait être produite dans le comté de Norfolk, dans l'Ontario. En d'autres termes, il s'agirait d'uniformiser la variété, ou d'avoir certaines variétés uniformes?—R. Seulement, il y a des variétés qui, à cause de la différence des climats, peuvent se produire dans l'Ontario et ne peuvent pas se produire dans notre région.

M. Boulanger:

D. Combien de tabac avez-vous acheté dans les trois dernières années?—R. Une moyenne de 300 à 400,000 livres. Il ne faut pas oublier que j'avais en stock 350,000 livres de tabac qui m'étaient restées de l'année 1928 et 1929.

D. Combien y a-t-il de marchands de tabac comme vous dans la région de Joliette?—R. Je ne peux pas le déterminer.

D. A peu près?—R. Dans mon district, dans le district de Joliette?

D. Oui.—R. Une soixantaine, à peu près.

D. Quelle quantité, à peu près, achètent-ils, par année?—R. Je ne peux pas le dire.

D. Vous n'avez pas même l'idée approximative?—R. C'est assez difficile à dire.

D. Quelle proportion de la production, les achats des commerçants représentent-ils?—R. Ah! la plus forte quantité. C'est une question à laquelle il est très difficile de répondre.

D. Les commerçants de tabac qui achètent le tabac en feuilles des planteurs, achètent ce tabac en concurrence avec les agents de l'Imperial Tobacco et des autres manufacturiers, n'est-ce pas?—R. Oui, mais on ne les a pas vus beaucoup nous faire de la concurrence depuis plusieurs années; ils n'ont pas acheté.

D. Cette concurrence, à supposer qu'elle existe, est-elle avantageuse pour les planteurs de tabac?—R. Certainement.

M. Boulanger:

D. Maintenant, si les commerçants de tabac se voient imposer une taxe de 20c. par livre sur le tabac en feuilles, est-ce que cela ne serait pas au désavantage du planteur?—R. Certainement. Si 50 p. 100 ou 75 p. 100 des manipulateurs de tabac qui font les achats chez les producteurs sont éliminés, cela sera de nature à favoriser ceux qui vont rester, avec la possibilité d'acheter et à des prix moindres. Plus il y a de concurrence, plus il y a d'excitation.

Le président:

D. Le petit commerçant serait éliminé?—R. Pas seulement le petit, il y en a qui sont assez puisants aujourd'hui, vous savez.

D. Le commerçant serait éliminé mais non pas le producteur?—R. Non, le producteur ne serait pas éliminé.

M. Boulanger:

D. L'élimination des commerçants aurait-elle pour résultat de mettre le marché du tabac en feuilles entre les mains des gros manufacturiers?—R. C'est le moyen d'éliminer le commerce du tabac en feuilles.

D. Un autre résultat ne serait-il pas de forcer le cultivateur ou le consommateur de la province, qui achètent du tabac en feuilles, qui le coupent eux-mêmes, de forcer ces gens-là à s'approvisionner de tabac préparé, en paquets, chez les manufacturiers?—R. C'est assez difficile, ça; dans les temps qui courent, surtout dans les temps de crise, cela est difficile. Si les chômeurs sont obligés de payer 20 ou 25c. la livre de plus pour le tabac, cela n'améliore pas la qualité, cela la détruit plutôt. Le moyen que je suggère serait à l'avantage du producteur, du consommateur, du manipulateur et à l'avantage du manufacturier, car le producteur serait forcé de tenter de produire une meilleure qualité de tabac, et si vous me le permettez...

Le président:

D. Exposez vos suggestions.—R. J'en étais rendu à la production d'une seule variété sur une même ferme. Troisièmement: S'il était possible de faciliter le crédit des cultivateurs par les banques. Quatrièmement: Le contrôle de la vente serait fait par une licence.

M. Sommerville:

D. A qui le permis s'appliquerait-il, au vendeur?—R. A toute personne, à tout manipulateur de tabac. Voyez-vous, dans la province de Québec, on a mis une loi en vigueur qui est de nature déjà à améliorer le produit. Sur chaque colis de tabac, il faut mettre le nom du manipulateur ou le nom de celui qui le détaille.

M. Baribeau:

D. Vous dites que sur chaque livre de tabac vendu au comptoir, le nom du producteur doit être écrit, ou est-ce le nom du vendeur?—R. Le nom de celui qui le prépare ou le nom du vendeur, ou de celui qui l'écoule.

D. Sur chaque livre?—R. Oui, sur chaque livre, la loi est en force depuis le mois de janvier. Maintenant, il y a deux lacunes pour moi, dans la loi,—il n'y a pas de loi parfaite, mais c'est un bon commencement. Premièrement, on exige

de marquer: "Produit de Québec ou Produit d'Ontario"; le nom authentique de la variété, et on a oublié de mentionner la qualité. Deuxièmement, il faut marquer le nom et l'adresse du manipulateur ou du détaillant. Cela est très bien. Maintenant, je suggère un droit, une licence à tous les manipulateurs de tabac. Pour plusieurs raisons, surtout...

Le président:

D. Vous voulez dire le manipulateur qui achète du producteur?—R. Le manipulateur. Aujourd'hui, le méchant producteur, malgré qu'il soit obligé, s'il veut écouler son tabac, de mettre une étiquette dessus, à cause de la loi qui est en vigueur, peut être encore favorisé par le fait que la loi ne parle pas de la qualité.

D. La qualité devrait être indiquée sur le paquet?—R. Certainement. Maintenant, j'ai connu des cultivateurs, même de bonne foi assez, qui jugeaient leur situation impossible et qui voulaient la rendre meilleure, qui font imprimer des étiquettes au nom de leur petits-fils ou de leurs fils, et puis il y a des manipulateurs de tabac qui l'ont fait. J'attaquerai surtout les manipulateurs, pas les producteurs, car des producteurs je n'en connais qu'un. Ces gens ont vendu, en se servant de la rigueur de cette loi, du tabac de qualité inférieure portant des étiquettes. S'ils avaient été obligés de mettre sur leur étiquette le numéro d'une licence, qui serait de $50, cela aurait été impossible, car, par une licence du manipulateur ou du détaillant de tabac, le producteur de tabac serait dans l'obligation de vendre son tabac à un homme licencié, et s'il n'est pas satisfait du prix qui lui est offert, il pourrait prendre une licence lui-même.

D. Avez-vous d'autres suggestions à faire?—R. Non monsieur.

M. Baribeau:

D. Y a-t-il, dans les comtés que vous représentez, L'Assomption-Montcalm, Joliette et Berthier, des compagnies qui achètent du tabac et qui sont contrôlées par l'Imperial Tobacco ou d'autres compagnies?—R. Il est très difficile de répondre à cette question car les agents sont quelquefois des manipulateurs de tabac. Je ne connais pas leurs opérations intérieures, je ne vois que l'extérieur.

M. Young:

D. Tout à l'heure, vous avez dit que vous aimeriez à produire du tabac à cigarettes. Les producteurs de tabac d'Ontario ont soumis un mémoire dans lequel ils disent qu'ils ont le monopole de la production du tabac à cigarette?—R. Je pense qu'ils disent vrai.

D. Sur quoi fondez-vous l'espérance que vous pourrez produire du tabac à cigarettes dans la province de Québec?—R. Moi, si j'avais rédigé ce mémoire,—quoique je n'y suis pas opposé, et je n'ai eu l'occasion de le lire que ce matin,—je crois que notre climat ne favorise pas beaucoup la production du tabac à cigarette. Seulement le gouvernement provincial par l'entremise de ses agronomes est à faire des expérience et ils ont eu des résultats assez satisfaisants, paraît-il.

M. Boulanger:

D. M. Marion, un témoin a laissé entendre, ici, que le tabac, acheté par les commerçants dans votre région, n'était que des déchets, qu'est-ce que vous avez à dire à ce sujet?—R. Je crois que ce monsieur fut mal informé.

D. Est-ce que ce n'est pas votre pratique, M. Marion, quand vous achetez du tabac d'un producteur, d'acheter toute sa récolte, le bon, le moyen, le mauvais, vous achetez tout?—R. A la première question, je répondrai que celui que j'ai vu, dans le mois de janvier, le premier sur le chemin pour acheter voulait acheter seulement le tabac le plus commun de la récolte de 1933. Je ne sais pas si c'était pour lui ou pour l'Imperial Tobacco, mais c'était un agent de l'Imperial Tobacco, qui a commencé à offrir 2c. la livre pour le tabac commun de la récolte de 1933. Je suis sous serment ici et je jure cela. Il n'achetait pas le bon.

Le président:

D. Il achetait le tabac de qualité inférieure?—R. Oui, monsieur, il achetait le tabac de qualité inférieure, seulement ça. Je ne sais pas si c'était pour lui-même, c'est un manipulateur de tabac, mais il est agent pour l'Imperial Tobacco.

M. Baribeau:

D. Quelle a été la production totale du tabac dans les comtés que vous représentez, L'Assomption-Montcalm, Berthier et Joliette, durant les années 1932 et 1933?—R. Si l'on tient compte des rapports des agronomes qui ont fait un certain recensement, on prétend que la quantité est d'environ 4 millions de livres, mais, moi, je crois que c'est plus que ça.

D. Nous avons des rapports que la production est d'environ 10 à 12 millions de livres?—R. Pour moi, il y en a plus que ça, dans les comtés que vous m'avez nommés. Il s'en produit aussi dans le canton de Saint-Césaire.

M. Boulanger:

D. Quel serait l'effet, sur le prix du tabac au consommateur, de l'imposition d'une taxe uniforme de 20c. par livre sur le tabac en feuilles de toutes catégories, est-ce que cela ferait monter les prix?—R. Certainement, mais seulement pour le consommateur. Cela n'améliorerait pas la qualité.

D. Est-ce que cela serait avantageux pour le producteur?—R. Du tout.

D. Dans ces temps de crise que nous traversons actuellement, M. Marion, seriez-vous en faveur de forcer les cultivateurs à laisser le tabac en feuilles pour fumer le tabac en paquets?—R. Non, monsieur, il n'y a pas que les cultivateurs qui fument du tabac en feuilles, il y a aussi les autres individus.

D. Il n'y a pas que les cultivateurs qui fument du tabac en feuilles?—R. Non, monsieur.

Le témoin est congédié.

M. Charles Frenette est appelé et assermenté.

M. Parry:

D. Vous représentez un groupe de producteurs de la région de Saint-Charles-de-Bellechasse?—R. Pardon, je ne représente pas de producteurs.

D. Alors, à quel titre venez-vous faire des représentations, aujourd'hui, au comité?—R. Moi, je viens donner les quantités de tabac que j'ai achetées des cultivateurs cette année et la moyenne des prix que j'ai payés.

Le président:

D. Etes-vous commerçant ou producteur?—R. Je suis commerçant.

D. Alors, donnez vos renseignements.—R. Du 1er janvier 1933 au 31 décembre 1933, j'ai acheté des cultivateurs 807,000 livres de tabac et le prix moyen que j'ai payé en 1933, fut de 5c. 5. la livre. J'ai acheté 800,000 livres de tabac des cultivateurs et 100,000 livres de la Coopérative de Saint-Jacques-de-l'Achigan.

Le président:

D. Pour le compte de qui achetez-vous du tabac?—R. Pour moi-même.

D. A qui vendez-vous votre tabac?—R. J'en vends une grosse partie aux marchands détaillants,—à peu près 90 p. 100.

D. Quelle sorte de tabac vendez-vous? C'est du tabac en feuilles?—R. C'est du tabac en feuilles seulement.

D. Du tabac en feuilles à l'état brut?—R. A l'état brut, pour être fumé; je le vends en feuilles pour être fumé tel qu'il est; je n'en vends pas aux manu-

facturiers. En 1933, j'en ai acheté 800,000 livres des cultivateurs. La moyenne du prix que j'ai payé aux cultivateurs a été de 5½c. Ce que j'ai acheté de la Coopérative, je l'ai payé 4½c.,—à peu près, je suppose, 50 p. 100,—et dans les tabacs aromatisés, j'ai payé 7c.

M. Kennedy (Winnipeg-Centre-Sud):

D. Quelle est la qualité de ce tabac que vous avez acheté? Vous avez dit que vous en avez acheté à... —R. A 4½c.

D. Quelle était la qualité de ce tabac-là?—R. Bonne qualité dans les grands tabacs, la variété des grands tabacs, tels que Connecticut, le grand Havane...

Le président:

D. Il ne s'agit pas de tabacs séchés à l'air chaud?—R. Aucune préparation.

M. Sommerville:

D. Est-ce qu'il y avait du tabac à cigare?—R. Non, il n'y en avait pas.

D. Simplement du tabac à pipe?—R. Oui.

D. Qu'est-ce que vous entendez par le tabac aromatisé? Est-ce que c'est du tabac à pipe aussi?—R. C'est du tabac à pipe.

Voici un état du tabac que j'ai vendu en 1933:

VENTES EN 1933

	livres
Janvier	10,389
Février	24,659
Mars	31,115
Avril	27,684
Mai	65,096
Juin	103,180
Juillet	102,389
Août	101,501
Septembre	57,912
Octobre	70,779
Novembre	68,894
Décembre	34,508
	708,066

D. A quel prix avez-vous vendu votre tabac?—R. La moyenne, 11½c.

D. Est-ce le prix moyen ou la qualité moyenne du tabac?—R. La moyenne.

D. Vendez-vous votre tabac comme vous l'achetez, en vrac, ou le mettez-vous en paquets?—R. La préparation me coûte 2c. par livre. Il y a le fret. Moi, je ne reste pas dans le district.

M. Boulanger:

D. Quelle préparation faites-vous subir au tabac avant de le vendre aux détaillants?—R. On le passe un peu à la "steam" pour le mettre en paquets d'une livre ou d'une demi-livre et en balles de vingt-cinq ou cinquante livres.

D. Quand vous achetez du tabac du cultivateur, vous l'achetez en grosses balles?—R. Oui.

D. Combien pèsent ces balles-là, à peu près?—R. Dix, vingt-cinq et cinquante livres.

D. Ensuite, vous défaites ces grosses balles et vous mettez le tabac en paquets?—R. On défait ces balles pour mettre le tabac en mains, pour le faire "steamer" et, ensuite, il est pesé par demi-livre ou par livre.

M. Sommerville:

D. Avez-vous d'autres suggestions à faire au comité concernant l'amélioration de l'industrie du tabac?—R. Non. J'ai pris connaissance du rapport et, franchement, j'approuve ce rapport préparé par M. le notaire Forest. Je n'ai rien autre chose à ajouter.

Le président:

D. Vous approuvez les suggestions de M. Marion?—R. Franchement, j'approuve quand il dit qu'on pourrait se passer de la taxe de 20c., mais il peut y avoir des détails que je ne pourrais pas expliquer parce qu'il y a des détails assez compliqués.

M. Boulanger:

D. Monsieur Frenette, l'année dernière vous avez acheté 300,000 livres de tabac des cultivateurs?—R. 800,000.

D. 800,000 livres des cultivateurs et, à part cela, 300,000 livres?—R. J'ai acheté, à part cela, 100,000 livres de la Coopérative, à peu près,—j'ai les factures, —et 50,000 livres des manipulateurs du district.

D. La Coopérative de qui vous avez acheté ce tabac-là, comment s'appelle-t-elle? C'est la Coopérative des planteurs de tabac de Joliette?—R. Oui.

D. Le total de vos achats pour 1933 s'élève à 950,000 livres, alors?—R. A peu près.

D. Combien en avez-vous acheté en 1932?—R. Je n'ai pas mon état.

D. A peu près? Avez-vous une idée?—R. J'en ai acheté en 1932 à peu près 600,000 livres,—600 à 700,000 livres.

D. En 1931?—R. A peu près la même chose.

D. En 1930 aussi?—R. C'est toujours à peu près la même quantité, excepté l'année dernière où j'en ai acheté plus parce que je trouvais les prix favorables.

D. Depuis combien d'années êtes-vous dans le commerce du tabac en feuilles?—R. Cela fait trente-deux ans.

D. Avez-vous toujours acheté à peu près la même quantité chaque année, pendant tout ce temps-là?—R. Non, j'en achetais beaucoup moins autrefois. Je me rappelle seulement de la première année, 50,000 livres, et la dernière.

D. Combien y a-t-il de marchands de tabac qui achètent du tabac des cultivateurs dans le district de Joliette?

Le TÉMOIN: De commerçants de tabac?

D. Comme vous, oui.—R. Ce serait difficile de les compter.

D. A peu près? Une idée?—R. Il peut y en avoir vingt-cinq, trente,—trente ou quarante.

D. Pouvez-vous dire quelle est la quantité approximative de tabac que ces commerçants achètent des cultivateurs chaque année?—R. Ce serait difficile à dire.

D. Pouvez-vous dire quelle proportion de la production les achats des commerçants peuvent représenter? Est-ce 50 p. 100, ou moins, ou plus?—R. Je comptais que dans le district de Joliette, il pouvait se récolter au moins 10.000,-000 de livres,—8 à 10,000,000.

D. Et, là-dessus, savez-vous combien les commerçants comme vous peuvent en acheter, à peu près?—R. Non.

D. Est-ce la moitié, ou plus, ou moins? Vous ne le savez pas?—R. Non. Je dois dire au comité que si je ne donne pas plus de renseignements au comité c'est que je ne sais ni lire ni écrire.

D. Vous m'avez entendu tout à l'heure poser des questions à M. Marion au sujet de l'effet ou du résultat que pourrait avoir l'imposition d'une taxe de 20c. sur le tabac en feuilles?—R. Oui.

D. Vous avez entendu ses réponses?—R. Oui, monsieur.

D. Je n'ai pas besoin de vous poser les mêmes questions. Etes-vous de la même opinion que M. Marion à ce sujet-là?—R. Au point de vue de la taxe, absolument; je l'approuve entièrement. C'est au détriment des producteurs et au détriment des consommateurs, parce que trente ou cinquante acheteurs en compétition, les cultivateurs en retireront plus de bénéfices que quand ils seront à la merci de deux ou trois compagnies seulement.

Le président:

D. Quelle proportion du tabac que vous achetez est revendue en colis ou en paquets, sans que vous soyez obligé de payer une taxe?—R. Je le vends tout sans être obligé de payer de taxe.

M. Baribeau:

D. Quand vous achetez la récolte des producteurs de votre district, est-ce que vous avez à subir la concurrence de l'Imperial Tobacco ou d'autres grandes compagnies?—R. Je m'aperçois que, ne restant pas dans le district, alors que ces compagnies ont des agents dans ce district, alors je suis supposé payer plus cher qu'eux autres. Et je peux prouver ce que je dis par la moyenne que j'ai payée sur les tabacs que j'ai achetés.

D. Y a-t-il surproduction de tabac dans votre district?—R. Je ne le crois pas.

M. Boulanger:

D. Monsieur Frenette, qu'est-ce que vous avez à dire de la suggestion de M. Roch, que les commerçants de tabac n'achètent que des déchets?—R. Par la moyenne du tabac que j'ai acheté des cultivateurs à $5\frac{1}{2}$c., en ayant acheté 800,000 livres, et prenez la moyenne des tabacs que j'ai achetés de la Coopérative, vous allez avoir la réponse.

M. Sommerville:

D. Vous avez déjà dit que vous achetiez du tabac de bonne qualité?—R. Oui, je l'ai dit. En ayant une moyenne de $5\frac{1}{2}$c. pour le tabac, les 800,000 livres que j'ai achetées des cultivateurs, et prenez la moyenne de l'argent que les cultivateurs du district ont reçu de la Coopérative et vous verrez s'ils ont acheté une meilleure qualité que moi ou s'ils ont donné plus d'avantages aux cultivateurs. La moyenne de l'argent qu'ils ont reçu de moi pour leur tabac doit être plus élevée que la moyenne de ceux qui ont porté leur tabac à la Coopérative.

Le témoin est congédié.

M. Ernest Forest est appelé et assermenté.

M. Sommerville:

D. Vous êtes notaire à L'Epiphanie?—R. Oui.

D. Vous demeurez dans la région même où on produit beaucoup de tabac?—R. Oui, au centre.

D. Voudriez-vous, monsieur Forest, nous présenter vos suggestions concernant la situation de l'industrie du tabac et les remèdes que vous proposez pour améliorer cette industrie?—R. J'avais préparé un rapport là-dessus. Je suis arrivé en retard, on l'a fait lire tout à l'heure par un autre témoin. Les suggestions que j'avais à faire sont contenues dans ce rapport.

Le président:

D. Approuvez-vous le mémoire que M. Marion a lu au comité?—R. Je l'approuve. C'est celui-là que j'ai préparé.

M. Young:

D. Approuvez-vous cette affirmation que vous pouvez produire du tabac à cigarette dans votre région?—R. Oui. La preuve en a été faite l'an dernier, dans ma paroisse, sous l'empire du gouvernement fédéral, par la ferme expérimentale de L'Assomption.

M. Senn:

D. On n'a pas produit de tabac à cigarette dans votre région sur une base commerciale?—R. C'est sur une base d'expérimentation. Mais, cette année, M. Montreuil, gérant de la ferme, me dit qu'il bâtit un séchoir dans ma paroisse.

M. Young:

D. Est-ce que la superficie où on peut cultiver ce tabac dans votre région est assez vaste? —R. Certainement. D'après ce qu'on me dit. Je comprends que les producteurs de l'Ontario ne voient pas cela d'un bon œil. Chez nous, ce sera toujours la culture familiale. Alors, on n'en produira jamais de grandes quantités.

D. Si vous réussissez sur une petite échelle, pourquoi ne réussiriez-vous pas sur une plus grande échelle?—R. Nous n'avons pas de propriétaires de grandes fermes, chez nous. Un homme qui possède cent acres de terre, c'est le maximum. Sur ces cent acres, il faut qu'il prenne sa vie; alors, il peut donner à peu près dix acres pour le tabac; c'est le maximum.

D. Votre fermier ne consommera pas tout le tabac que vous produisez sur votre ferme—R. Evidemment non. C'est pour le commerce. Ce que je veux dire, c'est que ce n'est pas sur une grande échelle.

D. Le tabac à cigarette que vous produiriez chez vous serait surtout destiné au commerce?—R. Au commerce, certainement.

D. Ce tabac-là serait destiné au commerce en général, serait mis sur le marché?—R. Certainement.

M. Boulanger:

D. Monsieur le notaire, êtes-vous de l'opinion des deux autres témoins qui vous ont précédé au sujet de la taxe de 20c. sur le tabac en feuilles?—R. Ah! oui. Cela remonte à dix ans, la lutte que j'ai entreprise contre la taxe.

Le président:

D. Vous êtes absolument opposé à cette taxe?—R. Absolument.

M. Boulanger:

D. Est-ce le sentiment général des cultivateurs dans votre district?—R. Sans aucun doute. La seule différence, ce sont les requêtes qu'on a fait signer. Dans le marasme actuel des affaires, on est parvenu à contourner les gens, à leur faire croire qu'ils avaient avantage à cela.

D. Et, ensuite, ils ont signé des contre-pétitions?—R. Oui.

Le président:

D. Vous affirmez aussi que les gens qui ont signé cette requête avaient été déçus ou trompés?—R. Absolument. La preuve, c'est qu'ils ont signé une contre-requête.

Le témoin est congédié.

M. VICTOR CHARTRAND est appelé et assermenté.

M. Sommerville:

D. Quelle est votre occupation?—R. Je suis vice-président et gérant de la manufacture de cigares Forest Limitée, à L'Epiphanie.

D. Vous fabriquez une assez forte quantité de cigares par année?—R. Oui. J'ai déjà manufacturé jusqu'à 7,000,000 de cigares.

D. Vous êtes un manufacturier indépendant?—R. Oui, monsieur.

D. Voulez-vous expliquer au comité ce que vous avez constaté, ce qui vous est arrivé dans le commerce, dans la vente des cigares?—R. Sur la vente du cigare, il y a cinq ou six ans, on manufacturait 6,000,000 ou 7,000,000 de cigares. L'année passée, j'en ai manufacturé 1,100,000.

M. Factor:

D. A la machine ou à la main?—R. A la main.

Le président:

D. Qu'est-ce qui a réduit votre production?—R. C'est l'influence exercée par l'Imperial Tobacco sur les "jobbers", les détaillants, qui réduit notre production actuellement à ce montant-là.

D. Qu'entendez-vous par l'influence exercée par l'Imperial Tobacco?—R. D'après ce que les "jobbers" nous disent, l'Imperial Tobacco les forcent à porter leur marchandise.

D. Soyez bien précis, expliquez ce que vous voulez dire. Est-ce que ces commerçants que vous appelez "jobbers" vous ont dit qu'ils ne pouvaient pas acheter vos produits parce que l'Imperial Tobacco ne voulaient pas que ces commerçants vendent d'autres produits que les leurs?—R. Ils ne le disent pas ouvertement, ils le laissent sous-entendre.

D. Et puis ils refusent d'acheter?—R. Certainement.

M. Baribeau:

D. Vous vendez toute votre production par l'entremise des "jobbers", vous ne vendez pas aux marchands-détaillants?—R. Nous vendons aussi aux marchands-détaillants.

M. Sommerville:

D. Et votre production est tombée de 5 à 6 millions, qu'elle était il y a 5 ou 6 ans, à 1,100,000, l'an dernier?—R. Oui monsieur.

M. Factor:

D. Est-ce que vous éprouvez des difficultés à annoncer votre produit en concurrence avec les produits de l'Imperial Tobacco?—R. Certainement.

M. Sommerville:

D. Quelles sont ces difficultés?—R. La difficulté est que, quand nous posons nos annonces, on nous les enlève.

D. Qui enlève ces annonces-là?—R. D'après les marchands. . . naturellement, ce sont les voyageurs qui nous rapportent cela, leurs voyageurs posent leurs annonces par-dessus les nôtres.

D. Ces annonces dont vous parlez sont des annonces que des marchands vendant vos produits affichent dans leurs propres magasins?—R. Ce sont des tôles, ce sont des annonces en dehors, des annonces à l'intérieur comme à l'extérieur.

M. Factor:

D. Est-ce que quelque marchand s'est plaint à vous que l'Impérial Tobacco ou ses représentants leur disaient d'enlever vos affiches?—R. Voici ce que les marchands nous disent:—naturellement ce n'est pas moi qui ai constaté cela—seulement ils nous disent: L'Imperial Tobacco est venue et a posé des annonces par-dessus les vôtres; qu'est-ce que vous voulez qu'on dise.

D. Est-ce que des marchands vous ont déjà dit qu'on les avait menacés ou qu'on leur avait dit qu'ils ne pourraient pas obtenir de produits de l'Imperial Tobacco s'ils n'agissaient pas de cette façon-là ou si on ne les laissait pas faire? —R. Cela s'est répété peut-être cent mille fois, mais on ne peut pas le prouver.

M. Kennedy (Winnipeg-Sud-Centre):

D. Est-ce que les représentants de votre compagnie remettent le change aux représentants de l'Imperial Tobacco?—R. Non, on se ferait bien tuer.

M. Sommerville:

D. Dans certains cas, M. Chartrand, est-ce que des marchands vous ont dit qu'il avait été question de mettre vos produits à l'arrière plan ou sous le comptoir? —R. Mille et mille fois.

D. Et les représentants de l'Imperial Tobacco contraignent les marchands à suivre cette pratique?—R. C'est ce qu'on m'a rapporté.

M. Factor:

D. Savez-vous s'il existe un accord ou une entente, entre les marchands et l'Imperial Tobacco, à l'effet que les marchands doivent étaler les produits ou les annonces de l'Imperial Tobacco dans une proportion de 80 p. 100?—R. Je ne crois pas qu'il existe d'accord. Je sais bien qu'ils sont forcés par la compagnie.

M. Sommerville:

D. Avez-vous connaissance de cas où les marchands se sont vus contraints d'enlever vos produits ou vos annonces qui étaient étalés dans leurs vitrines et de les substituer, de les remplacer par des produits de l'Imperial Tobacco, à la demande de cette compagnie?—R. Dans les vitrines? Nous n'avons jamais fait ce genre d'annonces.

M. Boulanger:

D. Avez-vous entendu dire que l'Imperial Tobacco oblige les marchands à lui faire un rapport mensuel des produits qu'ils vendent de leurs concurrents?—R. Je ne peux pas le prouver, mais je l'ai entendu dire. J'aimerais à mentionner un autre fait. Il y a quelques années, l'Imperial Tobacco me faisait demander pour m'acheter. Ils m'ont dit que je devrais vendre. Je leur ai dit: "Non". Ils ne voulaient pas m'acheter, ils voulaient m'écraser. "Vous allez nous vendre à notre prix". Parce qu'ils sont venus s'établir à L'Epiphanie où j'ai ma manufacture.

Le président:

D. En opposition à votre entreprise?—R. Oui, en opposition à mon entreprise.

D. En quelle année était-ce ça?—R. Je n'ai pas la date exacte, cela peut être en 1923, je crois.

M. Kennedy (Winnipeg-Sud-Centre):

D. L'Imperial Tobacco a-t-elle érigé une manufacture pour vous faire compétition?—R. Oui et elle m'a dit que si je ne vendais pas je n'aurais pas de marché.

M. Boulanger:

Q. Avez-vous entendu dire que l'Imperial Tobacco fixe aux marchands la quantité qu'ils doivent acheter de leurs marchandises et la quantité qu'ils peuvent acheter de leurs compétiteurs?—R. Non, je n'ai pas entendu parler de cela.

Le président:

D. Quelles marques de cigares fabriquez-vous?—R. Je fais des cigares bon marché: de 5c., de 3 pour 10c. et de 2 pour 5c.

English (Mr. Factor and Witness).

M. Boulanger:

D. Quelle est la proportion de tabac canadien qui entre dans vos cigares?—R. 96 p. 100.

(Mr. Edwards and witness, in English.)

M. Kennedy (Rivière-à-la-Paix):

D. Employez-vous seulement des hommes à votre manufacture?—R. Non, des filles, des garçons, des femmes et des hommes.

M. Sommerville:

D. Est-ce que la compagnie vous a donné un avis quelconque que vous deviez vendre?—R. C'est un des gérants qui m'a fait venir. Sachant qu'ils devaient s'établir à L'Epiphanie, M. Levine m'a fait venir.

D. Est-ce qu'il vous a mentionné des termes?—R. Non, je lui ai dit que je n'étais pas à vendre.

D. Est-ce qu'il vous a dit: "Faites votre inventaire, demain nous allons acquérir votre commerce"?—R. Non, il m'a dit que je serais mieux de vendre.

(English follows: Mr. Factor and witness.)

M. Senn:

D. Achetez-vous votre tabac chez le détaillant ou chez le producteur lui-même?—R. Chez les producteurs.

D. Seriez-vous en faveur de l'achat du tabac à l'enchère ou suivant le régime d'achat actuel?—R. Ce serait mon point de vue... Sous le régime actuel, il est presque impossible d'avoir une variété de tabac uniforme. Ma suggestion serait que le tabac soit contrôlé par le gouvernement qui ferait une classification sans charger de taxe.

M. Baribeau:

D. Etes-vous opposé à la taxe de 20c. par livre?—R. Certainement. A quoi servirait-il de faire payer au consommateur 20c. de plus par livre de tabac? Si le tabac en feuilles était contrôlé... C'est que l'Imperial Tobacco aujourd'hui ne peut pas mettre la main dessus, parce qu'il est mis sur le marché quand il est en feuilles. Le tabac canadien en feuilles est toujours du tabac canadien, tandis que le tabac manufacturé est un tabac qui porte une marque de commerce et qu'on annonce. Si tout le tabac était mis sur le marché, contrôlé et haché, l'Imperial Tobacco en prendrait encore le monopole.

The CHAIRMAN: Thank you, Mr. Chartrand.

Witness discharged.

The Committee adjourned at 12.55 p.m. to meet again this day at 4 p.m.

AFTERNOON SESSION

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Let us proceed.

Mr. SOMMERVILLE: I will ask Mr. Stewart of the Macdonald Tobacco Company to come forward.

WALTER STEWART, called and sworn.

The WITNESS: May I make a statement? Have I got the right to speak?

Mr. SOMMERVILLE: Oh, yes.

The WITNESS: Have I got the right to call three members of the government and question them before this committee?

The CHAIRMAN: No.

The WITNESS: Well, you are a member of the government yourself.

The CHAIRMAN: Mr. Stewart, may I make it clear to you from the start that we want to treat you with the utmost of courtesy and consideration. We are calling you as a witness under the order of reference of parliament. By the way, I will indicate to you what the order of reference is so that you will not be under any misapprehension:—

> That a select special committee of eleven members of the House be appointed to inquire into and investigate the causes of the large spread between the prices received for commodities by the producer thereof, and the price paid by the consumers therefor; the system of distribution in Canada of farm and other natural products, as well as manufactured products, and, without restricting the generality of the foregoing, more particularly to inquire into and investigate,—
>
> (*a*) the effect of mass buying . . . "

I will not read the full details . . .

> (*b*) the labour conditions prevailing in industries supplying the requirements of such department and chain store organizations . . .
>
> (*c*) the relation between the flour milling industry and the bakeries of the country . . .
>
> (*d*) the methods and system prevailing in the marketing of live stock and animal products for domestic consumption and export, and the extent to which the present system affords or restricts opportunity for fair returns to the producers.
>
> That the committee shall have power to send for persons, papers and records, and further to request the appointment of a commission or commissions under the Inquiries Act, to secure evidence to be presented to the committee by such Commission or Commissioners.
>
> That the committee shall report to the House from time to time its findings, together with recommendations of such measures as in the opinion of the committee may be considered necessary, etc.

You are called, Mr. Stewart, as the head of the Macdonald Tobacco Company for the purpose of examination in connection with the tobacco business. We try to extend to any witness reasonable courtesy. If you wish to make any statement pertinent to the order of reference and to the subject under discussion we will be very glad to hear you.

The WITNESS: Yes, Mr. Chairman, I had reference to it. You have been speaking of buying tobacco. I say, what about buying the government? I would like to ask these questions before this committee.

The CHAIRMAN: We are not here to be examined.

The WITNESS: What about a royal commission? Do you pay for that? There was one some time ago.

The CHAIRMAN: We are not here to discuss any subject with you at all

The WITNESS: Some of the government have had something to do with this—very high officials in the government too.

The CHAIRMAN: We are not here to argue or discuss these things with you.

Mr. YOUNG: If there are any members of the government who can give us any helpful information on this the committee can call them.

The CHAIRMAN: Certainly; but we shall be the judges.

Mr. STEWART: Will you call them to-morrow if the House sits and ask them three or four questions? What are you? A Liberal?

The CHAIRMAN: Order, order. Now, Mr. Stewart, let me put you perfectly in your place. You are not at liberty to question the committee. You are not at liberty to discuss what this committee or any member of it is in or anything else, so you will please confine yourself. Now, proceed. Mr. Sommerville will direct the examination.

By Mr. Sommerville:

Q. Mr. Stewart, you are the president of the Macdonald Tobacco company?—A. Yes, sir.

Q. And you have been president since the organization of the company, in, I think, 1917 or shortly afterwards?—A. Well, it has changed its name once or twice.

Q. It has changed its name once or twice?—A. Yes.

Q. This was the business which was built up by the late Sir William Macdonald over a period of many years?—A. 1858.

Q. From 1858 and conducted by him until the time of his death in 1917? —A. Yes, sir.

Q. And this is a business which came into the possession of yourself and your brother in 1917 and later you acquired your brother's interest?—A. Yes, sir.

Q. And you are the sole owner of the business?—A. Yes sir.

Q. You manufactured plug tobaccos up to when?—A. Up to 1917 or 1918.

Q. And after that you added to that the manufacture of— —A. Cut tobacco.

Q. And at a later date, cigarettes?—A. Cigarettes.

Q. So that to-day you are manufacturing cigarettes as well as cut and plug tobacco?—A. Yes.

Q. And you have filed with me the financial statement of your company from the year 1929 to last year?—A. Yes.

Q. Together with the statement of your operations in each year?—A. Yes.

Q. And your business has been running at approximately ten or twelve million dollars a year?—A. Yes.

Q. For some time. And you have been using a substantial quantity of Canadian leaf?—A. Yes.

Q. Of late you have been using a substantial quantity of Canadian leaf, have you not, Mr. Stewart?—A. Just since the death of Sir William, because he did not use any.

Q. He did not use any?—A. No.

The CHAIRMAN: How long is that?

The WITNESS: 1917.

By Mr. Sommerville:

Q. Then all imported leaf had been used in connection with this plug tobacco business?—A. Yes.

Q. Then, the flue-cured tobacco of Ontario that you have used during the past five years is, I understand, as follows: 1929, 1,246,000 pounds; 1930, 1,225,000 pounds; 1931, 1,556,000 pounds; 1932, 1,802,000 pounds; 1933, 2,065,000 pounds. These have been your usings of flue-cured tobacco?—A. Yes.

Q. Would you be good enough to let us have a statement of the amount of these tobaccos that you have on hand in the various grades, Mr. Stewart? That is, your flue-cured tobacco?—A. I have not got anything with me, sir. We have a very very small stock.

Q. You have a small stock?—A. Yes.

Q. When you say a small stock, would you say 100,000 pounds?—A. No, I say about a year's stock.

Q. And that last year there were about two and a half million pounds that you used—no, 2,065,000. You have a stock of about that quantity on hand?—A. We have to-day.

Q. At the present time?—A. Yes.

Q. Do you buy direct from the growers?—A. No, sir; we never have.

Q. You buy from the leaf companies?—A. Yes.

Q. They do handle the leaf?—A. Yes.

Q. And, therefore, you have not a buying staff out among the growers? —A. No.

Q. In order to clear up a misapprehension which you have asked to be straightened out, it was stated in evidence that the Hodge Tobacco company were your buying agents in the field. I understand that is not true?—A. It is a separate corporation. We have nothing to do with it. We have control of the stock. We have nothing to do with the management of the company, and the stock that we hold bears no dividend.

Q. I want to clear up that situation. You feel perfectly free to buy from any organization that has leaf for sale?—A. We do buy, sir.

Q. You do buy?—A. Yes, sir.

Q. Sometimes you buy from the Hodge Tobacco company and at other times you buy from other owners?—A. Yes, sir.

Q. Now, with reference to the Hodge Tobacco company, I understand that was a company which was owned by you at one time?—A. Not outright.

Q. Not outright?—A. No.

Q. And in which you still have 51 per cent of the stock?—A. Yes, sir.

Q. But with respect to that 51 per cent you neither exercise control nor receive any share of the profits?—A. No, sir. We have nothing to do with the management.

Q. You have nothing to do with the management of the company; do not elect any directors?—A. No, sir.

Q. Are there any voting rights on that stock?—A. May I ask Mr. Lockwood about that, sir?

Mr. Lockwood: Yes.

By Mr. Sommerville:

Q. At any rate, you have not, for a number of years, exercised any voting rights or dividend rights in connection with that company?—A. I give Mr. Lockwood a proxy each year he goes—I don't know—when they have the annual meeting. They send us a statement which I decline to look at. I do not know anything about it.

Q. Then, the whole management of that company is in the hands of the holders of the 49 per cent?—A. Yes.

Q. And these are the Hodge interests of the United States?—A. Owensboro and Henderson, Kentucky. That is their two places.

Q. The Hodge company are large buyers?—A. In western tobaccos.

Q. In the United States?—A. Yes, sir.

Q. And they acquired this interest in Canada for the purpose of buying in Canada?—A. For export.

Q. For export purposes?—A. Yes, sir.

Q. I think, in fairness to you, that situation should be cleared up, Mr. Stewart, because it was generally accepted they were your buying agents?—A. No, sir.

Q. And in connection with this company, as you say, you do not receive any dividends?—A. No, sir.

Q. As a matter of fact, it is part of your arrangement with them that you get no dividends on the 51 per cent?—A. I think it is on the stock; it is on the stock certificate. I have not seen it for several years.

Q. You share neither in the management—

Mr. Lockwood: Non-dividend bearing.

By Mr. Sommerville:

Q. What is the use of having stock if it does not pay dividend?—A. When the government brought down the budget in 1918 they put a duty on foreign leaf of 40 cents—we had never used a pound—we had to jump into the market on the 1918 crop which was the first crop we bought.

By Mr. Ilsley:

Q. You had never used a pound of Canadian tobacco?—A. No, sir. The duty before that was 28 cents a pound. We entered in 1918 in a small way, and in 1919 a plant was built up, and we had to go in in 1919 and buy a tremendous quantity because we had no reserve.

Q. You were talking about this Hodge company?—A. They asked to come in. I didn't ask them. They came and asked me.

By Mr. Sommerville:

Q. They asked to go into the company?—A. Yes, and I think they have added to their facilities by machinery. I have not been there for some years myself. This is in Kingsboro.

Q. You turned over the control of this company and the management of this company and the plant to the Hodge people?—A. I turned it over? They bought 49 per cent of it, but not through me.

Q. Not through you?—A. No. I had nothing to do with it.

Q. I thought you had it all?—A. No, sir; I had not..

Q. When you had the 51 per cent who had the other 49 per cent before them?—A. Mr. Lockwood is familiar. He has been the secretary of the company and I was the president. I had nothing to do with the sale. I do not know what price or anything about it.

By Mr. Ilsley:

Q. I do not know whether it makes any difference, but why is it you do not have any dividends? Why do you own stock in a company on which you get no dividends?—A. We wanted protection.

Q. Against what?—A. There were only two or three people in dry tobacco and they were competitors. We could not give them our business. This was sometime—

By Mr. Factor:

Q. It was a drying plant?—A. Yes, a drying plant.

Q. Which was established by you?—A. Indirectly. I had something to do with it.

By Mr. Sommerville:

Q. Had you part of it?—A. Yes, sir.

Q. But 49 per cent was sold to the Hodge people in the United States?—A. Not by me. They picked up 49 per cent.

Q. They took up the 49 per cent?—A. Yes.

Q. Of the stock. Now, they control the drying plant and they sell dry tobacco to you?—A. They don't control it; they control the management, at least, as long as Mr. Lockwood owns that proxy.

By Mr. Ilsley:

Q. You have 51 per cent of the stock?—A. Yes.

Q. You control the company?—A. Yes.

Q. This is peculiar stock on which there is no dividends?—A. I said I did not want to have anything to do with it.

Q. You refused to take dividends?—A. I refused to take dividends; it was nothing to do with the management.

Q. You refused to read the annual statement?—A. I have nothing to do with it; I did not get anything out of it.

Mr. Young: Your money is in it.

The Witness: We have written that out; we do not count that worth anything, but it is there for protection.

By Mr. Sommerville:

Q. Protection against what? –A. There are half a dozen new plants since we entered the market, and when we entered the market the price naturally for a year or two rose.

Q. And then, this was a company— —A. To rehandle dried tobacco.

Q. Through which you handled dried tobacco, and in order to protect yourself so that you may be able to get it at that time, you had this control of the company?—A. The 40 cent duty forced us in the market.

Q. Since then a number of other companies— —A. Many other companies. Mr. Lockwood can tell you.

Q. Several other companies have come into the field?—A. Yes.

Q. That were not there at the time?—A. That were not there at the time.

Q. And the situation has changed since you have had this 51 per cent non-dividend paying stock, and without any obligation on your part to buy from them.—A. They also improved the plant. I did not put any more money in it. I think they put in a new drying machine, a big one from the States.

Q. They engaged in a general export business and shipped overseas?—A. That was the reason for acquiring an interest in it.

Q. I think that is satisfactorily cleared up. You wanted that made known on the record?—A. Please.

Q. Then, with reference to your own company. In 1930 a new company was formed?—A. Yes.

Q. And up to that time your company generally had a capitalization of two and a half million dollars?—A. Yes.

Q. Of that you had the entire amount?—A. Yes.

Q. And at that time you had undivided profits of $3,917,529.35. Then you organized a new company?—A. Yes.

Q. Previously to that, your profits had been running up to approximately $1,000,000 a year?—A. No, between $600,000 and $700,000 after very heavy advertising and selling expenses.

Q. Prior to 1929?—A. I mean for the seven years previous.

Q. Then subsequent to 1929 you organized a new company?—A. Yes.

Q. And at the time of the reorganization you took out undivided profits to the extent of $2,500,000?—A. Yes.

Q. And the new company that you then organized had a capitalization of $2,500,000. Since then you have continued the business under the name of the new company?—A. Which was the same as the old company was.

Q. Which was the same as the old company?—A. Yes.

Q. And in that new company since 1930 you have been making net profits of $500,000 or $600,000?—A. Not quite; between $400,000 and $500,000.

Q. Between $400,000 and $500,000 a year?—A. We are not trying to make profits.

Q. You were trying to build up a cigarette business, I understand?—A. Yes, cut tobacco and cigarettes.

Q. And because of that you spent a large amount of money in the development of that end of your business?—A. Yes.

Q. You have found it rather stiff opposition, have you not?

By Mr. Ilsley:

Q. Do I understand you are not trying to make profits in your business? —A. Net profits.

Q. Net profits?—A. Yes.

Q. They are profits, are they not?

By Mr. Sommerville:

Q. I think what the witness had in mind is not with a view to withdrawal, but to build up these brands?—A. Yes.

Q. Of cigarettes?—A. There is a big gross factory profit, but we are spending our money to try to develop our business because we were left the plug business only; had no cut business and no cigarettes. Besides that, I am not drawing anything out of the business.

Q. You draw no salary?—A. No salary.

Q. Your overhead is maintained at a very low figure?—A. Yes.

Q. And out of your gross profits you expend it largely in development of your own brands?—A. Yes.

Q. Cigarettes and cut tobacco?—A. Yes.

By Mr. Ilsley:

Q. Advertising?—A. We spent about $7,000,000 so far since the death of Sir William Macdonald. He did not spend a cent, had no travellers and did no advertising. His factory gross profit was practically his net profit, because outside of about five people everybody was paid by the week.

By the Chairman:

Q. You could not of course put out a cigarette and cut tobacco without heavy advertising in face of present competition?—A. No, sir. I have probably helped the business, because competition has been keen.

Q. Quite so?—A. We have sold quite a few—

Q. You did about 17 per cent?—A. Yes, we sold 720,000,000.

Q. Cigarettes?—A. Cigarettes.

By Mr. Sommerville:

Q. You have been making a steady advance with your cigarette and tobacco business. Then, I observe at the end of the period, end of 1933, under this reorganization company, you have undivided profits of $594,032.96?—A. Yes, sir.

Q. Now, the price paid for your flue in 1930 was approximately 40 cents, with an average price of 31 cents. Then, it dropped in 1931 to an average of 22 cents, and dropped in 1932 to an average of 16 cents; is not that so?—A. I think those figures are correct, sir; they have been given several times.

Q. In connection with those various drops in prices, did you have anything to do in fixing the price paid for the crops of those years?—A. Well, we met market conditions.

Q. Who sets the price?—A. What company sets the price?

Q. Yes?—A. I do not know sir. We follow the lead. Mr. Lockwood rings up and asks us if we want any tobacco. We say, "what is the price to-day? I think I can get so much at a certain price." If it is favourable, we state we will buy so much, and ring up to-morrow; then, while he is buying we never tell him what we are going to buy because we may be buying through somebody else in another section.

Q. You follow the lead. If somebody is paying 40 cents you have to pay 40 cents. If the large buyer is paying 30 cents, you follow at 30 cents, and if the large buyer is paying 16 cents, you are buying at 16 cents. I presume, as long as you are paying the same as your competitor, the question of whether you are paying 20 or 30 cents makes little difference to you?—A. If the crop is shorter, we cannot help it; we just both pay. And if we were short, we might put the price up or try to, rather.

Q. What I mean, is not it a fact that as long as you are competing on those terms, your are willing to pay what your competitor is paying?—A. Well, short crop, yes.

Q. For any crop?—A. We are always afraid of loading up, and having a large surplus. What are you going to do with it?

Q. I do not know. What do you do? We have not had that condition yet?—A. We try not to load up too quickly, so as to be able to stick with the market until the end of the market. The more slowly the crop is bought, it suits us better.

Q. Suits you better?—A. Yes.

Q. Why?—A. We supply by quality; we do not supply rubbish. The longer I have to buy and look over those crops, the better. Quality enters into it. It is not just a case of going out and buying wheat.

Q. You buy quality, comparable with anybody?—A. We try to.

Q. You try to?—A. Yes.

Q. Can you tell me what the average price was you paid for the 1932 crop?—A. I cannot tell that, because he invoices it dry, sir. We do not get any invoices for the wet.

Q. The Hodge Tobacco company?—A. And the other companies.

Q. They sell to you at the price which they pay the farmer, plus a certain definite sum for drying, or processing; is that the basis?—A. If we buy from another company, we do not ask them to make up their expenses; they send us samples, with a price.

Q. But I am talking now about the Hodge Company. Do they sell to you at the price which they pay for the green— —A. No, the redried price?

Q. —plus a certain sum for redrying?—A. Yes, but I have nothing to do with the spread.

Q. You have nothing to do with the spread?—A. I have nothing to do with the spread.

Q. Do you know what the spread is?—A. I think last year $7, including shrinkage.

Q. That is to say last year, you paid the Hodge Company $7,000?—A. No, that was not the price.

Q. That was not the price?—A. $7 a hundred over the price which they paid for the green.

Q. Seven cents a pound?—A. We would not know that sir. He does not send us invoices for the green tobacco. He only invoices it after it is graded. I do not know what he has thrown out. We get invoices for dry tobacco.

Q. Perhaps I misunderstood you. I thought you said Mr. Lockwood would call up and ask you if you wanted to buy some tobacco, you would ask him the price, and he would say that we can probably buy it at such and such a price?—A. That is only the first cost, sir; that is only the first cost.

Q. That is what I mean?—A. I have nothing to do with the first cost, outside of telling him to buy or not to buy.

Q. He does not tell you his cost, plus the cost of buying; he just gives you one price that it will cost you?—A. Yes; because to that you add shrinkage. We give him so much for buying, so much for drying, and then so much for grading. All these things go on it.

By the Chairman:

Q. Which average is 7 cents a pound?—A. Last year, over $7 a hundred.

Q. Well now, Mr. Stewart if you find that the big buyers are willing to pay for this season's crop, the sum of 25 to 30 cents, are you willing to do the same thing as a buyer?—A. We do not buy from the growers.

Q. You do not buy from growers, but you buy the leaf. Are you willing to buy on the basis of that?—A. If he rings up, we won't buy from him at all; we won't buy from him at all, that is all.

Q. What?—A. We do not buy it first hand, sir.

Q. We know that.

Mr. SOMMERVILLE: I know that.

By the Chairman:

Q. What we are talking about is this. If for instance, the Imperial, who are the big buyers, are out in the field buying at 25 cents— —A. You are speaking about the 1934 crop?

Q. Yes, this coming crop.—A. Do you want us to name the crop when the crop is not planted—no, we do not.

Q. What we are asking you is, if you are agreeable to a certain principle of buying. Let me put it this way: Would you be willing to pay the same price as your main competitor, the Imperial Tobacco Company, for tobacco grown in Canada?—A. Why don't you ask the rehandling houses. That is not our business. There are many rehandling houses we buy from. Ask them.

By Mr. Sommerville:

Q. Mr. Stewart, you are a user of a couple of million pounds; the Imperial are users of twelve million pounds, we will say?—A. Excuse me, they said seven and a half million pounds. We used two million pounds and they used over seven million pounds.

Q. May I put it this way: They bought last year upwards of ten million pounds, and you bought last year upwards of two million pounds. Now, if they are buying on the same basis as you, are you willing to pay for tobacco on the same basis for 1934 as they are willing to pay, that is the whole question?—A. Suppose the crop is not a good one.

Q. Then they would be in the same position, would they not?—A. If they do, we have not got to follow them. You do not want us to promise to do something that we don't know anything about.

Q. That is not the question at all.—A. Why don't they cut the crop out for this year?

Q. Well then, you would be out of luck.—A. Where would we be out of luck?

Q. You have not got your supply.—A. We can get it. There is too much tobacco; you have heard that from the other side, and yet they are trying to raise another crop on top of it.

Q. I suppose we would cut out manufacturing tobacco this year.

Mr. BELL: Too many cigarettes.

The WITNESS: How do you mean too many cigarettes?

By Mr. Sommerville:

Q. Perhaps I will come to it this way, Mr. Stewart: Do you regard it as reasonable that the growers of this tobacco should get 31 cent average in 1930, and then be reduced to 22 in 1931, and then be reduced to 16 cents in 1932; do you regard it as fair that there should be that wide fluctuation in the raw product which you are handling?—A. They raise too much tobacco. The 1932 crop was too big.

Q. Ah, but then you had a 25 per cent cut. a 25 per cent reduction in 1931. Now, is that a fair thing for the grower to have to carry? I am putting it to you as man to man?—A. Yes, but that is not my end of the business, sir.

Q. You do not handle any other raw product but tobacco; that is your raw product, and I am asking you, as a manufacturer if you think it is fair? —A. We can buy tobacco in the United States, and we do not set the price. When we want to buy tobacco there we go and buy it and pay the market price.

By the Chairman:

Q. Mr. Stewart, may I put it this way to you: Are you, as the second largest user of tobacco in Canada, willing to co-operate in the stabilizing of the market so that the grower can get a fair price for his tobacco?—A. How are you going to protect us if we say yes?

By Mr. Sommerville:

Q. How do you want protection?—A. What about the competition of those farmers from London down? They are manufacturing tobacco. Some of the growers—I won't name anybody—are growing tobacco and then putting it out. How are we going to meet that condition?

By the Chairman:

Q. You are referring, of course, to the Quebec practice?—A. No, sir, Ontario. In the aggregate, they say the quality is lower.

By Mr. Sommerville:

Q. Mr. Stewart, was not the fact of paying the 16 cent price the thing that forced them into the field to try and get a little more for their product, when they were getting so much less than the cost of production? The whole question comes back to the Chairman's direct request to you.—A. Might I ask the Chairman two questions?

The CHAIRMAN: The Chairman is not a witness.

The WITNESS: No, sir, but you are a government official, and there are two direct questions I would like to ask which have a direct bearing on what you are asking me.

The CHAIRMAN: Well, we want to humour you, Mr. Stewart, if I may put it that way. Now, ask your two questions.

The WITNESS: One, in 1932, in the Fall you reduced the cigarette duty from \$6 to \$4 a thousand. Our competitors knew about it but we went along manufacturing. We got a letter the day before the change was made. A party had gone through our factory just before and said, "You are still manufacturing, we are stopped manufacturing." He knew the excise duty was to be reduced, and it was reduced from \$6 to \$4. That is one time that we were not considered, we were never consulted on that. Why are you bothering with us to-day? You have always treated us as being of no importance. You did the same thing in the budget of 1933.

By the Chairman:

Q. You raise the point then that your competitors received information which you did not receive? Do you make that assertion?—A. Yes.

Q. On your responsibility as a prominent manufacturer?—A. And I can go further than that if you will allow me.

The CHAIRMAN: Note will be taken of that statement.

By Mr. Sommerville:

Q. What you want the government to do then is to advise you when they are going to change their excise duty?—A. If anybody knows why shouldn't we know?

Q. Now then, we are getting away from the question, Mr. Stewart. Are you prepared to help stabilize the market for raw leaf so that the growers can get a fair return for their product?—A. How are we going to do it.

Q. I am asking you, first of all, are you prepared to do—

Mr. ILSLEY: Well now, I think that this witness' question is a fair question to you, Mr. Sommerville.

The WITNESS: I am glad that somebody is taking my part.

The CHAIRMAN: Just a minute.

Mr. ILSLEY: I think that is right.

The CHAIRMAN: Just a moment please. Obviously we are getting nowhere if the witness can answer questions by merely asking another. I want to be as fair and courteous as I can to Mr. Stewart. The question we have put to Mr. Stewart is this: Is he willing to co-operate in an effort to stabilize the market for the grower?

Mr. ILSLEY: He wants to know what the proposition is.

The CHAIRMAN: Just a minute.

The WITNESS: You make a suggestion, sir. What do you want us to do?

By the Chairman:

Q. I will put it this way: Assume that a suggestion is made, would you be willing to sit in and consider it, put it that way?—A. Sit in with whom?

Q. Well, with those interested in the business?—A. You are asking us to do that. If we had acted before with them then you would have said it was in restraint of trade.

Q. That is another way of putting it?—A. Because some years ago, in Hamilton, we were sued for restraint of trade, and it cost us $5,000 or $6,000 to clear ourselves in connection with that charge, and we were about the only people that had nothing to do with restraint of trade, still we were named.

Q. Am I to take it, as your answer, that the reason you are not willing to commit yourself at the present time is because you found that such an action in the past was interpreted as restraint of trade, and you are not willing to put yourself in that position again?—A. No sir, because we had never acted with anyone.

Q. You are not willing then to act?—A. I did not say that. We have never acted with anyone.

Q. I am just asking you?—A. In what way though? You are making a suggestion. You want me to say yes but you do not tell me what it is you want me to say or do.

By Mr. Sommerville:

Q. Mr. Stewart, may I put it this way: Supposing other manufacturers of tobacco are prepared to increase the price to the grower for the tobacco of this year to a sum which is larger than you paid last year, are you willing to tell this committee that you will agree to the same price that they agree to pay?—A. How can I say that when we do not deal first hand.

Q. Well, Mr. Stewart, surely that is not an answer.—A. Yes sir, it is. What about the firms we buy from? They are the people that deal with the growers.

Q. Still, if you say that you will buy on the same basis then they will carry out that arrangement, I have no doubt. If you say to this committee

that you will buy on the same basis as other competitors of yours manufacturing tobacco, then I have no doubt they will carry out that arrangement. -A. Who are you naming when you say that, or how many are you thinking of?

Q. Well, you have got the Imperial; you have got Rock City; and Grothe, and MacDonald Tobacco Company. Now you have got the chief ones, have you not?—A. The chief domestic ones, yes, and what about the exporters?

Q. Who are exporting?—A. A lot of them are exporting.

Q. You are not exporting your cigarettes?—A. No, no, but the people that are handling other exports.

Q. You are manufacturing for domestic purposes?—A. Yes, but there are other people buying for export.

Q. That may be.—A. You are speaking of the buying end, you are not speaking of the manufacturing end.

Q. I am asking you, as a manufacturer, Mr. Stewart, if these other manufacturers are willing are you prepared to say to this committee that you will do what they will do?—A. The other manufacturers have got their own plants, we have not.

Q. Their own plants, what do you mean?—A. Some of the companies you have named have their own drying plants, they buy directly in their own name. Naturally we do not buy directly from the grower.

Q. But you have got 51 per cent of stock in another company?—A. We cannot tell him what to do, in fact we do not have to buy tobacco from him.

Q. That is getting away from the question, Mr. Stewart. You know exactly what I mean, and I am asking you now as a large manufacturer, if these other companies are willing to buy, are you willing to say to this committee you will pay what they will pay, on the same basis, for the same product?—A. Tell me on what basis you are asking me to say that?

Q. On whatever basis your competitors, which I have mentioned, agree upon?—A. I am not going to discuss everything with our competitors. We buy tobacco and pay market price, and our competition is worth a lot to the growers.

Q. Well, it was not worth much in 1932 when they got 16 cents?—A. Well, you know the quantity we bought. What do you expect us to do?

Q. I am asking you again, Mr. Stewart, if the other chief buyers in Canada, the other chief manufacturers in Canada are prepared to pay for their leaf on a better basis than has been paid in the past, for the past two years say, are you willing to say to this committee that you will cooperate to stablize the market and pay on the same basis they are paying?—A. I have told you we have nothing to do with first hand buying.

Q. I do not care whether you buy first hand or tenth hand. The question is, are you willing to pay on the same basis as your competitors? Don't you see, Mr. Stewart, supposing the other competitors agree, for the purpose of argument, to pay 40 cents and you say No, I will do nothing of the kind, I can go out and buy at 20 cents?—A. How could we buy at 20 cents if they pay 40 cents?

Q. You say there is a surplus?—A. I said there was a surplus.

Q. Well then, you go out and buy out of this surplus at 20 cents then you are in a position to compete with them on tobacco that cost you half the price they are willing to pay?—A. What are you going to do with the 20 cent tobacco?

Q. If the domestic manufacturers will agree to pay the domestic price for the domestic trade, then I ask you, are you willing to agree to buy similarly on a similar basis as they, or are you going to say No, I will do nothing of the kind?—A. I tell you again we do not buy from the grower

By the Chairman:

Q. As a matter of fact, Mr. Stewart, my information is that you are willing to do this. We would like you to help the committee. Please get this in your mind: We are not out to harass you or anyone else, but we do feel—and I think the committee agrees with me in this—that the grower in the past few years has not received a fair deal, and we are anxious—this committee is anxious—that out of this investigation shall come something that will give to the grower, the fellow who is growing his tobacco on the farm a little better deal, and we believe it can be done with the co-operation of the manufacturers. You are the second largest manufacturer in Canada, and it is surely essential that we have at least a measure of co-operation from you, and that is why we are at the moment asking you this question.

Mr. SOMMERVILLE: May I add to that, Mr. Stewart, that we have just that much confidence in you and the reputation of your firm, that if you were to say to this committee you are willing to co-operate, then your word is better than your bond; that is all that is required from you.

The WITNESS: If I say yes what am I pledging myself to?

By Mr. Sommerville:

Q. Just to be on the same basis as the other manufacturers that I have mentioned?—A. For any stipulated quantity?

Q. For whatever may be the quantity, the quantity you bought last year if you want to put it on that basis, or your requirements, whichever you like; that is in your hands. Supposing we say two million pounds?—A. And have I got to say from whom I am going to buy that two million pounds?

Q. No, no.—A. Suppose I buy from somebody else other than Mr. Lockwood, how am I going to tell him what the price was?

Q. That will be taken care of, Mr. Stewart. The mere answer that you are prepared to buy on the same basis as the rest will do more to stablize this market than anything else that I can think of.

Mr. ILSLEY: I don't know much about this. Are you going to get all the manufacturers in Canada before this committee and ask them to swear publicly that they are going to sign a certain agreement?

The CHAIRMAN: No.

Mr. ILSLEY: I do not know. It does not sound much like evidence to me, it sounds like something different. I do not know just the purpose of it myself. I think, as a member of the committee, I should know something about it. It is not in pursuance of any plan.

The WITNESS: I do not know any more than you do. I would like to know too.

Mr. SOMMERVILLE: Perhaps you will remember that the committee, through the Chairman, made a special appeal to the manufacturers to sit in with the growers and see whether or not a basis might be arrived at that would give them a more adequate return. To that conference the MacDonald Tobacco Company were invited. Mr. Stewart takes a position, to which he is perfectly entitled, that he does not want to sit in with anybody to make an agreement, that they do their business in their own way. Now then, we are asking him, if those others agree is he willing to do the same, and make a statement to the committee.

The WITNESS: May I say something?

Mr. YOUNG: Are you asking him to agree that if the others will pay a certain sum he will do the same?

Mr. SOMMERVILLE: Yes, for domestic purposes.

Mr. YOUNG: And are you going to bind him to that by an agreement? I do not think this committee has any such power.

The CHAIRMAN: It is not a question of binding anybody down to anything of the kind. It is a question of whether there is a willingness to co-operate to solve a very difficult problem with which we are confronted. I do not want to review the evidence, every member of the committee has heard it, and there is, without doubt, a possibility of some such thing being done which will be in the interest of the growers, which will enable the committee later in its report to formulate the suggestion. It is only a question of whether or not Mr. Stewart would be willing to enter into such an arrangement.

Mr. YOUNG: It looks to me as if something were being done that this committee has no right to do.

The CHAIRMAN: Certainly not, I do not agree with that.

The WITNESS: It looks to me as if you are trying to ring us in on something that we do not want to have anything to do with.

By Mr. Edwards:

Q. If you are not willing to co-operate to help the condition of the grower, I would say that is a sufficient answer.—A. Who said that?

Q. The grower is the one that is bearing the burden.—A. I have not heard many mention the consumer in this affair.

By Mr. Sommerville:

Q. He has not been getting any of the reduction in the price of tobacco.—A. Then you do not know, sir.

Q. Well, if he has we should like to hear, Mr. Stewart, if there has been any reduction in the last two years in the price of cigarettes as the result of the reduction of 50 per cent in the price of tobacco.

The CHAIRMAN: Other than from excise.

The WITNESS: Certainly there is.

By Mr. Sommerville:

Q. Take your cheap brands.—A. Our average price last year, if it had not been for the government putting on the duty which was put on, and which we knew nothing about, an awful duty on cigarette booklets, we sell a package of fine cut for 10 cents, and there is a two cent tax on every booklet, 36 cents tax on the books and 20 cents on the tobacco, 56 cents, sir, and we knew nothing about it, and it has cost us thousands of dollars. I would like to ask a question of one of the members of your cabinet.

By Mr. Sommerville:

Q. We are asking you now a question as to what change has taken place in the price of your cigarettes in the last two years. What is your leading brands?—A. British Consols is our leading cigarette, we sell between 500,000,000 and 600,000,000, one of the largest brands in Canada.

Q. What do they sell for now?—A. A cent a piece.

Q. What did they sell for?—A. A cent and a quarter before.

Q. Before the tax was taken off?—A. Yes.

Q. That is 20 for 25 cents?—A. Yes.

Q. And with the tax of 4 cents—or, what was it?—A. $6 a thousand reduced to $4 a thousand.

Q. That is the equivalent of 4 cents on 20 cigarettes, isn't it?—A. Yes, 12 against 18.

Q. And when the tax was reduced from $6 to $4, then there was 4 cents taken off the price; that would leave the cost price 21 cents and you reduced that to 20 cents; is that right?—A. No, it is not right.

Q. All right then, what is right?—A. Further than that, our duty was reduced in October, or so; it was not brought down in the budget in the regular way—and I would like to ask the Chairman why it was reduced.

Q. We are not here to examine the government. All I am asking you now is, what reduction has taken place in the price of British Consol cigarettes since 1931?—A. They are a cent apiece, instead of $1\frac{1}{4}$ cents.

Q. And the one-quarter cent included the reduction in the excise tax?—A. How are you going to pass it on.

Q. Did it include the reduction in the excise tax, the reduction from $1\frac{1}{4}$ to 1 cent?—A. That is what makes the reduction, how do you think it could be done otherwise?

Q. Of course it did. When the price of tobacco was reduced from 31 cents to 16 cents, was that reduction passed on to the consumer in these consol cigarettes?—A. You could not pass it on, sir.

Q. Could not?—A. How could you?

By the Chairman:

Q. The question is, it was not?—A. It takes about 3 pounds of tobacco to make a thousand cigarettes. In British Consol roughly one quarter is domestic, so it brings you down so that you only have a saving on a quarter of your cigarette—a saving of a pound on the three pounds going into the whole thing.

Q. It would be about three quarters of a pound?—A. Yes.

Q. That is the explanation, Mr. Stewart; and it is sufficient?—A. It is so small, people won't pay odd cents. If you try to sell 20 for 19 they would not buy it.

Q. That is the explanation, and it is a very good answer?—A. It is a very small fraction in the cost.

By Mr. Sommerville:

Q. Then, it not being passed on, it just added to your gross profits on the manufacture?—A. Gross profit, yes; but we spent probably more money in trying to advertise it.

Q. Then if you had spent a little more money for the tobacco, the grower would have been more suitably rewarded, would he not?—A. Certainly, the higher the price the better for him.

Q. Since you must pass on that fraction of 50 per cent saving in the tobacco —?—A. Oh, no.

Q. Well, 30 per cent saving?—A. No.

Q. I don't care, make it 20 per cent?—A. Well, there was a small saving.

Q. Make it twenty, that will do, I don't care which it is; since you cannot pass it on to the consumer, why not pass it on to the producer who needs it?—A. Why does not the government help us out and reduce the tax a bit.

Q. You are a manufacturer and a buyer, why not pass it on to the producer? —A. You are speaking about a crop that has already been used.

Q. Yes. Then there is no suggestion that you care to make to this committee?—A. There is the suggestion I have already given you. We have reduced the tobacco price. I do not know whether any of you men come from the West, we have big sales on tobacco.

By the Chairman:

Q. Smoking tobacco?—A. Fine cut, sir; and the slogan is "Half as much tobacco for the same money as other brands," that is very largely the tobacco you are speaking about. Pardon me, my mistake; half as much more tobacco for the same money.

By Mr. Boulanger:

Q. That is cigarette tobacco?—A. Cigarette, and very largely this flue-cured they are speaking of.

By Mr. Sommerville:

Q. Perhaps Mr. Stewart might file with the committee a statement showing the reduction that has taken place in the price of his product?—A. You don't have to, it is ten cents down; the average was 93 cents for six months last year against $1.03. Then it went up the last six months on account of the tax on the book. We did not raise our price on tobacco, but we paid thousands of dollars for the little 2 cents for our booklet that goes on the package. I think somebody in the government made a mistake, and when they found out what revenue they got, they left it alone.

Q. Would you be good enough to file these statements on your various brands, as the Imperial are doing, with a statement of the price of that brand in 1930 and in each of the following years?—A. There was no such brand, the brand is only out. You cannot compare them.

Q. All right, give us all your brands with the price from 1930 to 1934?—A. The ones that have gone up is due to the duty on the booklet, it has nothing to do with the tobacco.

The CHAIRMAN: State that, Mr. Stewart.

Mr. SOMMERVILLE: Make that statement, because we want that file to be complete.

By Mr. Young:

Q. You said that this reduction in the price of raw tobacco enabled you to sell your finished tobacco to the consumer at a lower price?—A. Yes.

Q. I ask you this question: if you paid more for your tobacco in 1932, would it have raised the price to the consumer?—A. On the brand I am speaking of, yes.

By Mr. Sommerville:

Q. What brand is that?—A. Zig-zag, a tenth for 10 cents. The West has taken a lot of it.

Q. A tenth of a pound for ten cents a package; when did you start to produce it?—A. A few months ago, sir.

Q. And was that just because the price of flue came down to 16 cents?—A. Well, partly because our book average—we have a perpetual inventory, we do not keep one year's stock separate from another—we have our book and we have our stock.

Q. What proportion of Canadian leaf is in zig-zag?—A. A very large per cent.

Q. 80 per cent to 90 per cent?—A. Fully.

Q. Fully that?—A. Yes.

Q. Perhaps it is one of those we are hoping for 100 per cent Canadian leaf?—A. Very close to it.

Q. And it is a new product of yours?—A. Yes, sir.

Q. And that is $1.00 a pound?—A. To the consumer.

Q. Yes, $1.00 to the consumer, and 16 cents to the producer?—A. Yes, and 20 cents to the government.

Q. 20 cents to the government, and that leaves—?—A. Plus sales tax.

Q. And that leaves 16 to 80 less sales tax for the spread between the producer and the retailer?—A. You have to stem tobacco. Somebody has to manufacture it. There is the cost of the packages. There is 20 cents duty. Somebody has to make a profit.

Q. Somebody has to make a profit, that is quite apparent?—A. Yes.

Q. And having taken out your profit of $2,500,000 in 1930, you have in the meantime—?—A. That has not got anything to do with it, because that is not a fair statement.

Q. Which is not a fair statement?—A. Just go on, say what you did again.

Q. Having taken out your accumulated profits of $2,500,000 in 1930?—A. That was permitted by the government, earnings prior to; that has got nothing to do with the 1932 crop. You were trying to link up these profits with the low prices the farmers got, that is not right.

Q. That is not what I was trying to do at all?—A. You did emphasize the amount then, just after saying about the spread.

Q. If you will just wait till I get through, you will see what I was trying to do. Having taken out the accumulated profits in 1930—?—A. Yes.

Q. Having taken them out then you have at the present time at the end of four years accumulated profits of $594,432.96?—A. That is only book-keeping.

Q. Well, this is in your statement?—A. Look at the price we have our stock extended at. It might be capital stock, it might be there would not be any surplus at all.

Q. These are the undivided profits?—A. What is the capital extended at, sir.

Q. The capital, $730,000?—A. Yes, we put a valuation of $36.50 a share on it.

Q. What difference does that make?—A. It would make a big difference. If you put the capital in at the full price, there would be no surplus.

Q. I am talking about profits?—A. What you are speaking about is not a profit.

Q. At any rate, at the end of four years you have accumulated profits of half a million dollars approximately?—A. I would say it was merely book-keeping.

Q. Merely book-keeping?—A. Yes.

Q. Well, it is represented somewhere there, because you have been making from $400,000 to $500,000 a year net?—A. Yes.

Q. And your overhead is negligible, so it must be somewhere. Perhaps it is more than that, Mr. Stewart?—A. Perhaps it is less.

Q. I would like to find out. These are your financial statements, are they not?—A. Yes.

Q. Well, we will see what they disclose later?

By Mr. Kennedy (Peace River):

Q. You mentioned two or three times, and it seemed to have a bearing on the question, as to whether you would co-operate or not, that some information regarding the proposed budget changes was given to your competitor before they were to you?—A. Yes.

Q. Who was your competitor, and how do you know?—A. I tried to name one man—that was when the Liberals were in power.

Q. Who was it?—A. Do you want me to use names or not, because I do not want to get anybody in trouble.

Mr. EDWARDS: I do not think that is necessary.

The WITNESS: We were told that.

By Mr. Kennedy (Peace River):

Q. There is no use in hiding this thing?—A. We were asked, do you want your cigarette duties reduced the same as your big friends; and the answer was, we did not contribute to the campaign funds of either party, we did not play politics.

Mr. SOMMERVILLE: Some one apparently was talking loosely.

The WITNESS: I do not think so, this was a man very close to the Prime Minister.

The CHAIRMAN: The present Prime Minister.

The WITNESS: Yes, sir. These men are very high up that I have got. If you want me to name them --I do not want to name them unless you want me to.

Mr. KENNEDY (*Peace River*): As far as I am concerned you can name them if you like. We won't press you if you don't want to name them.

Mr. SOMMERVILLE: Mr. Stewart's information comes from such sources that I would hesitate very much to accept the same just at present.

By Mr. Heaps:

Q. How many employees have you?—A. About 1,200.

Q. What do they earn there?—A. A great deal of work is on piece-work basis.

Q. Are they mostly women employed there?—A. Yes, about two-thirds.

Q. What are the hours of labour?—A. From 8 to 12, and 1 to 5.

Q. Eight hours a day?—A. Yes.

Q. What do they earn per week?—A. There are so many different rates, there is plug, cigarette, and cut tobacco.

Q. Can you give us the various rates they earn from the lowest to the top?—A. We can give them to you all right. Of course you know there is a minimum wage law in the Province of Quebec.

Q. Do you observe the minimum wage rate?—A. Yes, we did before it was put into effect.

Q. Can you file with the committee the rates of wages earned by the employees of your company?—A. Yes.

Mr. EDWARDS: In what year?

Mr. HEAPS: From 1930 on to 1931, 1932 and 1933.

The WITNESS: Yes, sir.

By Mr. Heaps:

Q. Has there been any reduction in the rates of pay in the past four years in your firm?—A. In one department there might have been, where we can't give steady work. And in some where—take one lot will come in and work for a week and then they are out, and another lot will come in next. Our plug tobacco has been cut down from the total of around 7,000,000 to 9,000,000, to around 4,000,000 pounds a year, so that a lot of the old employees we could not give full time work to.

Q. Did that apply to the cigarette department particularly?—A. No, that is all in the business.

Q. They are working pretty steady there?—A. Yes.

Q. Short time is only in the other section of the factory?—A. Yes.

Q. You will give the committee a list?—A. Yes.

By Mr. Edwards:

Q. You have not put in a percentage wage cut in your factory?—A. No.

By Mr. Ilsley:

Q. You said something about the export of tobacco. I don't know whether you said Great Britain or not. Let me understand this. You say that if you agree with the other Canadian manufacturers to pay a certain price for tobacco, that there would be a surplus? Is this what you say, that there would be a surplus left over which would be exported at a very much lower price?—A. Yes.

Q. That is what you say, is it not?—A. Yes; at least it would be if there was no demand. If there is a big demand abroad, I presume they would get a high price.

Q. Is that what you fear? Is that one reason that you are advancing for that?—A. All we ask is for you or the government to protect us, that somebody else does not get tobacco for less than we are going to be bound to pay. That is all. That is all I ask, Mr. Sommerville and Mr. Stevens.

Q. What I was asking is this, if the Canadian purchasers agree to pay a certain price for tobacco, who would get it at a lower price? What purchaser would get it at a lower price?—A. I didn't hear the beginning. Will you repeat it?

Q. If the Canadian manufacturers of tobacco all agree to pay a certain price for tobacco—which is suggested as I understand—what competitor of yours would be getting it at a lower price?

Mr. Kennedy (*Winnipeg*): You mean surplus?

By Mr. Ilsley:

Q. What competitor would be getting any tobacco at a lower price?—A. We have brought tobacco back from England. We have been offered Canadian tobacco from England, and bought it.

By Mr. Sommerville:

Q. That was just one lot?—A. No, it was not one.

Q. That was some of the China-American?—A. I am not speaking of that; Burley tobacco and other tobacco.

Q. They failed and passed out of the picture.

By Mr. Ilsley:

Q. Would it hurt you if any foreign manufacturers or British manufacturers did buy tobacco at say half what you are paying for it in Canada? —A. No, not as long as you are sure it won't come back.

Q. If it does not come back?—A. To a Canadian manufacturer.

Q. That is what I want to get at. Is there any real danger in this from your standpoint, for not agreeing to this proposal?—A. Yes, there is.

Q. Is that the danger, that there would be a surplus, assuming that the present production is maintained, which you say is over-production? Is that the danger, that there may be a surplus bought or sold from somebody out of the ring?—A. Yes.

Q. That is being set up?—A. Yes.

Q. And that that purchaser will flood it back to some of your competitors in Canada; is that the danger you fear?—A. Yes, because we are one factory only. We have no connection with any other factory. If other factories have connections with export companies, what protection have we got?

Q. All right, that is one thing.

By Mr. Sommerville:

Q. If they do agree to do that, how is there danger?—A. The surplus may come back.

By the Chairman:

Q. How could the surplus come back, except by paying the 60 cent duty? —A. No, we get this tobacco without duty. There is no duty. Five years, I think, is the limit.

By Mr. Ilsley:

Q. If it comes in from Great Britain there is no duty?—A. On any Canadian tobacco that goes to Britain and you re-import it within five years, there is no duty. It comes back into the country duty free.

Q. That is one thing you are afraid of?—A. Yes, because there are millions of pounds over in England.

Q. Would there be any danger in this, that the manufacturer of cigarettes in Great Britain would send cigarettes here?—A. No.

Q. What stops that?—A. They would be competing with themselves if they sent cigarettes here.

Q. Why would they be competing with themselves?—A. The Imperial in Great Britain has a large interest in another company that was mentioned here somewhere, and as this company has got the largest sale in Canada, there would be no object in coming back and competing with them.

Q. It would be the Imperial of Great Britain competing with the Imperial of Canada, which would be competing with themselves?—A. Through the other company that was mentioned.

Q. What is the duty on cigarettes?—A. Imported?

Q. Yes?—A. The number imported is very small.

By the Chairman:

Q. Negligible?—A. Yes.

By Mr. Ilsley:

Q. Are there other manufacturers of cigarettes in Great Britain that are not connected with the Imperial of Great Britain and Ireland and the Imperial of Canada?—A. Yes.

Q. There would be no danger of cheap cigarettes coming in from them if they bought their tobacco or raw material at half?—A. No, the duty would protect that.

Q. It would protect you from that ?—A. Yes.

Q. So the only danger you can suggest is that there might be some leaf or some raw tobacco— —A. Yes.

Q. —coming in from somebody to whom it was sold at a very cheap price? —A. Yes.

Q. Through there being over-production?—A. Yes, because nearly all these Ontario firms are exporting, or trying to export.

By Mr. Young:

Q. Mr. Stewart, you said something about paying 40 cents a pound duty on your imported leaf. How is that paid, and when?—A. We pay it every ten days. We withdraw it daily, and pay the tenth, twentieth and last day of the month.

Q. Do you pay it as duty?—A. It is paid as excise. It is customs duty paid as excise.

Q. That is to say, the tobacco comes in and goes into bonded warehouses? —A. Yes.

Q. And as you draw it out you pay this 40 cents duty?—A. Three times a month.

Q. When you manufacture that into cigarettes, do you pay an excise duty on it also?—A. Yes, we buy the stamps. The stamps are put on the packages.

Q. It is taxed twice, then?—A. Yes.

Q. And the Canadian-produced article is taxed once?—A. Yes, once.

By Mr. Ilsley:

Q. You said something about another matter. I don't know whether we should follow it up or not, but I think we might as well get it cleared up. You said you were invited to contribute to campaign funds with a view to sharing in the benefits of a duty, is that it?—A. That was what was said at the time the man asked for it. He just said, "I presume you would like the cigarette duty reduced, the same as your friends."

Q. The cigarette duty reduced?—A. The excise duty.

Q. The excise duty reduced, the same as your friends?—A. Yes.

Mr. SOMMERVILLE: What difference does it make to you?

By the Chairman:

Q. Just a minute—the same as your friends. There is no discrimination in the reduction of the duty. It applies to everybody in Canada?—A. Well, he referred to a particular friend, sir.

Q. But it applies to anyone in Canada?—A. No, the inference was given that somebody else would like a reduction, if we would like to chip in on the party funds.

Q. That was some third party that made the proposition to you?—A. A man very close to the Premier.

By Mr. Ilsley:

Q. The present Prime Minister?—A. Yes.

Q. When was that proposition made?—A. Shortly before the election.

Q. Which election?—A. The last election.

Q. The 1930 election?—A. I don't remember the year, but the last election.

Q. The last general, federal election?—A. Yes. And further than that, the reduction, when it was made, was not made in the regular way when the budget was brought down. It was made in October.

By the Chairman:

Q. But it was made by parliament, in a special session of parliament?—A. And further than that, we passed on the reduction to the public, and our cigarette sales doubled. We put 20 for 20 cents into effect immediately. I think that is known all the way through Canada.

By Mr. Ilsley:

Q. Let me get what you are saying correct. You some way or other link the fact that you did not contribute with the fact that you did not get information that your competitors got?—A. We have been ignored all the time, because we don't play politics.

Q. Is that correct? Do you, in your own mind, link the fact that you did not contribute to party funds with the fact that you did not get information, advance information, that your competitors got?—A. Yes. And in addition to that, we didn't have anybody lobbying up here for us. I will say that. We don't keep in touch with the politicians because we are seeking no favours.

By the Chairman:

Q. Do you make the statement, Mr. Stewart, on your own responsibility and of your own knowledge, that the reduction in the duty on cigarettes was made as a favour to your competitors, and because of campaign funds? That is the inference you are leaving?—A. Somebody close to the government must have suggested it—I mean, that you might get more revenue if you reduced it. Five billion roughly is about the maximum of the cigarettes sold in Canada.

That is $6. That is $30,000,000 of excise. It might show in better business when they reduced it. You would have to sell seven and a half billion cigarettes for the same income, on that tax alone. Instead of that, last year's sales were slightly over four billion, instead of seven and a half billion.

Q. That has nothing whatever to do with the point. You are making a very damaging statement, that someone told you so and so. I am asking you the question, if you, of your own knowledge, know that the reduction in the duty on cigarettes was due to a desire to favour some individual?—A. It was not favouring any individual.

Mr. SOMMERVILLE: No, of course not.

The WITNESS: If it came down, we got the same. If there was any benefit, naturally we got it. We didn't get it at the time. We were working right up to the day before the duty was reduced, while other factories were closed.

By Mr. Sommerville:

Q. Do you say, on your personal responsibility, that somebody told your competitors that this excise tax was to be lowered?—A. I can't say that.

Q. No. As a matter of fact, was there not an application by a lot of the manufacturers to the department, making representations that it would be helpful both to the growers and to the revenues of the country if it were reduced, that more cigarettes would be sold at the lower price?—A. I don't know, sir.

Q. Don't you know, as common knowledge, that there were these representations?—A. Who were the lot of manufacturers? How many manufacturers do you think there are? Just read out the figures of the other manufacturers.

Q. Well, how many are there?—A. There may be four or five or six.

Q. Then you have got nothing to fear?—A. But the others are small. We are small, but they are smaller.

Q. What difference does it make? Were there not representations made to the government that if the excise were reduced from $6 to $4, there would be a reduction in the price of cigarettes, there would be an increase in the sale of cigarettes, and that that would compensate for some reduction? Was not that representation made?—A. I don't know.

Q. You don't know?—A. No. I know we were not considered important enough to be asked by the government, and now you are asking us to agree with our competitors.

Q. Is it not a fact that you stayed away from every manufacturer?—A. For a very good reason.

Q. Yes; and you never go near them, never consult with them or never join with them in any representation which any of them ever make to any government?—A. Do you think we should?

Q. I don't know. Is it not a fact that you do, and if you do, then how can you know what is going on?—A. Because we have got some very good friends. We know what is going on.

Q. I see.—A. Yes.

Q. Well, you do get your information, then. So the net result of it is that you don't know that your friends were advised in advance?—A. I know one factory was closed. They were not manufacturing the day before the change was made, and the man said, "I am sorry, but we expect a change to-morrow."

Q. Some man said that?—A. Well, I am not naming people. I don't want to name people.

By the Chairman:

Q. Yes, but you are pretty free with innuendoes, Mr. Stewart?—A. No, sir, because I asked you—I can name three cabinet ministers; if you have them here I would like to ask them three questions.

Q. That is not the point. If you have any statement— —A. Yes, I have something to say to them, too.

Q. If you have any statement to make, now is the time to make it, but you make your statement on your responsibility?—A. Well, have I got any protection if I say anything.

Q. Protection?—A. I mean, this is a parliamentary commission.

Mr. ILSLEY: I would say you are not liable to any prosecution or suit for slander. You have the same privilege as any witness in court has.

By Mr. Sommerville:

Q. Yes, but I would think, Mr. Stewart, that a man of your standing would hesitate about slandering anybody or making a statement that was slanderous? —A. What is the definition of slander?

Mr. SOMMERVILLE: All right.

The CHAIRMAN: You used the word "slander."

The WITNESS: I did?

Mr. SOMMERVILLE: No, I don't think so.

The WITNESS: I didn't, I don't think.

Mr. SOMMERVILLE: No. I guess that is hopeless. He does not know what it means.

By Mr. Ilsley:

Q. Mr. Stewart, there is one thing that I think you should be asked. You say a man very close to the Prime Minister asked you for this contribution. I think you might just as well tell the committee the name of the man, instead of letting it go that way. I should think the majority of the committee would want that stated. I don't know why the minority does?—A. Do you want me to answer?

Q. I think you should be allowed to?—A. Mr. Ward Pitfield of Montreal. He was collecting campaign funds for the Conservative party in the last election.

By Mr. Kennedy (Peace River):

Q. What about the other case you mentioned some time previously about the advanced information?—A. On that one our representative in Toronto—a customer from St. Catharines was motoring through to Toronto and he dropped off at Hamilton at a factory which belongs to somebody else, and this man was wholesaler, and he called at the factory and the man said, "Would you like to look around?"—we have the letter on record where they were not working.

Mr. SOMMERVILLE: That is not the point.

The WITNESS: The man said, "I am sorry. We are not working because we expect a reduction in the duty to-morrow."

Mr. SOMMERVILLE: That is not the point Mr. Kennedy is referring to; you are referring to a previous request about campaign funds for the Liberal party?

The WITNESS: The Liberal party?

Mr. SOMMERVILLE: Well that is what you said in your evidence?

The WITNESS: I did not.

Mr. ILSLEY: He said when the Liberal party came in power, and they were in power prior to the last election.

By Mr. Sommerville:

Q. It was not a contribution you were asked for from the Liberal party? —A. No, sir.

Q. The Liberal campaign fund?—A. No, sir.

Q. You said it was when the Liberal government was in power?—A. Yes.

Q. That was when?—A. Mr. Stevens knows when they came into power. I do not know. You know.

Mr. ILSLEY: I have a vague idea.

By Mr. Kennedy (Winnipeg):

Q. Mr. Stewart, the election you refer to when you say that Mr. Pitfield asked you for a contribution to the campaign funds, was the election held in July of 1930?—A. If that was the last election, sir, yes.

Q. That was the last election. Was it just prior to that election that you were first asked for campaign funds or had your company been asked for campaign funds in previous elections?—A. No. As I say we do not take any interest in politics.

Q. You do not contribute to the campaign fund?—A. No, sir. That is why we are not—

Q. I understand that. You do not wish to be associated with political parties and you do not contribute to campign funds and never have?—A. No, sir.

Q. But you say you were asked by Mr. Pitfield immediately prior to the last election?—A. Yes.

Q. Well, on any occasion prior to that had your company been asked for campaign funds?—A. I do not remember, because I mean—I do not think we have ever been asked by the Liberals. I do not know.

By Mr. Sommerville:

Q. Then, Mr. Stewart, is it not a fact that in 1930 or in 1931 the sale of cigarettes dropped off very considerably and people were buying tobacco for roll-your-own?—A. Not in our case, because our sales have gone up.

Q. Has there not generally throughout Canada—

The CHAIRMAN: He made the statement they dropped to four billion.

The WITNESS: That is the country's business.

By Mr. Sommerville:

Q. That is the country's business. Yes, I am not talking about your business. Is it not a fact that the country's business had dropped; that the cigarette business of the country had dropped very substantially and people, on account of the depression, were rolling their own?—A. They are rolling their own to-day.

Q. Yes, but did not that condition that began in 1930 and continued in 1931 continue still further in 1932?—A. I think so. I think it continues to-day.

Q. And it continues to-day. And it was more than two years after the present government came into power before any change was made in the excise tax?—A. I do not know the dates.

Q. On cut tobacco?—A. On cut tobacco or cigarettes.

Q. The excise from $6 to $4?—A. As I say, I do not know the dates. In connection with the election, I do not follow politics.

Q. You follow business. What was the date when the excise reduction took place?—A. I think it was in the fall of 1932.

Q. The fall of 1932?—A. Yes.

Q. Was that not a direct result, two and a half years after the election, of representations that there had been such a steady decline in the sale of manufactured cigarettes that there would be a return of the sale if the price were reduced?—A. That is what they thought.

By Mr. Kennedy (Peace River):

Q. You have not said anything to me that has shown me how you are discriminated against in connection with that change in the excise tax. The tax applied to your cigarettes the same as in the others. You implied that your competitors got some advantage?—A. Only in knowing that—just in the knowledge of when it was coming down.

The CHAIRMAN: Now, Mr. Stewart, I think it is necessary for you to make that point clear. You say that your competitors knew that the change was to be made. Explain please. You are on oath, and you are here before this committee; explain exactly what you mean by that, because it is a very serious charge?

The WITNESS: If I can find the letter I will produce the letter.

By Mr. Sommerville:

Q. That letter does not mean anything other than information to you. Where did you get that information?—A. I got it from Toronto.

Q. And somebody at Toronto was motoring through Hamilton?—A. No. A St. Catharines man was motoring through to Toronto and he dropped off at Hamilton on the way and he went through the factory there.

Q. He went through what factory?—A. Well, another factory.

Q. Whose factory?—A. Tucketts.

Q. And in Tucketts factory this man from St. Catharines heard something from a man in Hamilton?—A. No. He is a buyer, and in passing the factory he was asked if he would like to look around, and the man said he was sorry. He said, "We are not working, we expect a reduction in the cigarette duty to-morrow."

Q. To-morrow?—A. To-morrow or the next day.

Q. And this man passed that information on to you or somebody else?—A. No. He called on our Toronto man.

Q. And this man passed this information on to you through the man in Toronto?—A. No. He called on our representative in Toronto.

Q. He told your representative in Toronto?—A. So he said.

Q. So your representative said; and then your representative passed that on?—A. He wrote to us, and the day we got the letter the duty was either reduced the same day or the day after.

Q. Now, that is the whole story. What is your complaint?—A. I am not making any complaint.

Q. What is the object in your telling us this then?—A. I am saying we were working full. Outside of that letter all we knew about it was in the newspaper, so there must have been something going on.

Mr. HEAPS: How long had that Hamilton factory been closed?

The WITNESS: They were running down their stocks.

By the Chairman:

Q. How long were they closed?—A. I don't know.

Q. One day as far as you know?—A. They said they were not working.

Q. Is that all the grounds you have for the statement that information had gone out to your competitors that the duty would be reduced?—A. I think it was reduced because somebody asked them to reduce it.

Mr. SOMMERVILLE: Of course, everybody asked them to reduce it but you.

The CHAIRMAN: I may say I asked for it time and time again in parliament for the last ten years. I took a strong objection to the high rate of duty on cigarettes and always did.

The WITNESS: And suppose the American duty goes down, what are you going to do here?

The CHAIRMAN: That does not mean anything. That is merely one man's opinion.

By the Chairman:

Q. I am asking you is the recital you have just made the grounds upon which you based the very serious statement that information was given out to your competitors that the duty would be reduced? A. You are asking me that question?

Q. Yes.—A. I say I do not know. We got the letter. The company knew they were not working.

Q. Please answer the question. Is that all you based your statement upon? —A. Yes.

Mr. ILSLEY: Tucketts are owned by the Imperial of Canada?

The WITNESS: Yes, they have been for years, although it was not generally known.

By Mr. Kennedy (Peace River):

Q. You say that the Tucketts factory man said to your representative that they expected a reduction?—A. This is a customer, a St. Catharines man. He was motoring to Toronto. He dropped off in Hamilton on the way.

Q. And going through the factory in Hamilton he was told they expected a reduction?—A. That is the explanation because they were not working.

Q. He did not say they knew, though?—A. Oh, no. This was only a letter.

Mr. ILSLEY: You were depending upon their actions rather than upon their words?

The WITNESS: Yes, sir.

By Mr. Sommerville:

Q. Mr. Stewart, just before we leave this financial statement. You filed this financial statement with me as being the true statement of your affairs?—A. Yes.

Q. And are they true and correct?—A. Certainly.

Q. Why do you say that they are just book-keeping entries?—A We do not pay any dividends.

Q. No, you do not.—A. We have no shares or bonds or anything in the hands of the public.

Q. No.—A. The Quebec succession duty is very very high. If anything happened to me, it pays us better to show a low valuation than a high valuation; otherwise, where is the money coming from to pay the succession duties?

The CHAIRMAN: We will leave that to the Quebec government to deal with.

By Mr. Sommerville:

Q. And in the meantime, you say you do not draw any salary?—A. No.

Q. What do you draw?

Mr. BELL: Breath.

By Mr. Sommerville:

Q. What do you draw from the company?—A. Nothing in the way of salary.

Q. What do you draw?—A. I drew out unearned surplus; I was allowed to by the government by the income tax.

Q. You draw that at the rate of how much a week?—A. $5,000 a week.

Q. $5,000 a week?—A. Yes.

Q. Since the beginning of 1930?—A. Yes.

Q. Every week?—A. Yes.

Q. $260,000 a year?—A. Yes.

Q. And after drawing that out— —A. Excuse me though, that is not subject to income tax?

Q. Why not, explain that.—A. That is the only reason I draw nothing on top of that.

Q. That is why you do not draw any salary?—A. Yes.

Mr. Heaps: No income tax paid on the income?

Mr. Sommerville: No, depreciation on capital that appreciated before 1930, and which under the law can be divided and withdrawn as depreciation.

By Mr. Sommerville:

Q. Then, on top of that there is this accumulation of undivided profits of $594,000?—A. I say the reason for that is, if you write the capital up, the undivided profits would come down.

Q. Every year you have dropped your capitalization from $2,500,000 in 1930, and you got it down now to $700,000, and that has all happened in the period of four years?—A. Under the company's by-laws, I have the right to value shares.

Q. I am just taking the statement— —A. Yes?

Q. —and trying to get a picture.—A. Yes.

Q. It presents us somewhat of a picture.

Mr. Ilsley: These profits cover what period?

The Witness: Prior to 1930.

Mr. Young: Since the death of Sir William Macdonald.

By Mr. Ilsley:

Q. I am speaking about this $500,000 odd. That is for what period?—A. If you write the capital down, the surplus is bigger. If you put the capital in at a higher rate, the surplus would be less.

Q. I think there is a difference between a profit and a surplus, I may be wrong.—A. We may have the wrong word.

Q. Your statement shows profits of $500,000 odd for a certain period, which, I understand, began in 1930, but I should like to get the exact period.

Mr. Sommerville: Quite.

Mr. Ilsley: The net profit of the new company.

Mr. Sommerville: Let us take it year by year. Let us start with 1931.

The Witness: That is not altogether fair, what Mr. Sommerville is asking me.

Mr. Ilsley: I do not see why not.

The Witness: We filed our statements with the income tax department. We are a private company. These are private figures. There is nothing taken from the public; they have no bonds or stock.

Mr. Ilsley: It is not my place to enter into an argument with you, but this committee is examining price spreads to find out whether companies are making excessive profits out of what they are paying the producer and charging the consumer, and therefore, I think it is a matter of public interest to know what your profits were.

Mr. SOMMERVILLE: Here is 1931. There were no net profits at the beginning of 1931, but at the end of 1931 the undivided profits amounted to $54,756.43.

Mr. ILSLEY: For what period?

Mr. SOMMERVILLE: The year 1931. For the year 1932, the statement shows undivided profits at the beginning of the period of $54,756.43, and at the end of the period $580,125.18. Then, in 1933 it shows at the beginning, undivided profits of $580,125.18, and at the end of the period $594,432.96; so that they are the undivided profits that have accumulated in three years of operations.

Mr. ILSLEY: On a capitalization of $2,500,000?

Mr. SOMMERVILLE: Yes; which has been steadily reduced and shows now $750,000, at the end of the three-year period.

The WITNESS: Would it be proper to invite two or three of these gentlemen to come to Montreal, at our expense, and we will show them anything they want, of the works?

The CHAIRMAN: I am sure they would be delighted to go down, but I do not know whether they would go at your expense or not. It is up to them. It is quite all right, Mr. Stewart, to invite anyone to see your plant.

Mr. ILSLEY: We would be very pleased to do it, or I would, as I go through Montreal.

Witness retired.

NORMAN A. LOCKWOOD, called and sworn.

By Mr. Sommerville:

Q. Mr. Lockwood, what position do you hold in the Hodge Tobacco Company of Canada, Limited?—A. I am manager and president of it, also treasurer.

The CHAIRMAN: Secretary?—A. No, not secretary.

By Mr. Sommerville:

Q. Salaries all combined?—A. Salaries all combined.

Q. And it also has proxy for all the stock held by the Macdonald company?—A. No; we have proxy naturally for the capital held by Mr. Walter M. Stewart.

Q. That represents some 51 per cent?—A. Yes.

Q. Now, I have asked you to file a statement showing your purchases in 1933 of flue-cured tobacco?—A. I think I gave it to you.

Q. I have a statement here?—A. Yes.

Q. Your plant is located at Kingsville, Ontario?—A. Yes.

Q. And is a branch of the Hodge Tobacco Company in the United States?—A. Not exactly.

Q. Well what is the relation?—A. The Hodge Tobacco Company of the United States own 49 per cent—within a fraction of that—of the stock of our company, and there are two directors, Mr. Charles and Mr. W. G. Hodge, of Henderson, Kentucky, besides myself.

Q. And Mr. Stewart has no representation on the board?—A. No.

Q. And he takes no part in the management?—A. He takes no part in the management.

Q. Nor in its operation?—A. Nor in its operation, and gets no part of any earnings that we may make.

Q. So that both management, profit and directorship are all in the control of the Hodge Company?—A. And myself.

Q. And what were the total purchases for the crops of 1932, 1933, and 1934, Mr. Lockwood?—A. I have a copy here of my return to Mr. McGregor, of the Combines Investigation Act. I think I can give it to you from that. The first year, you say.

Q. 1931: Perhaps you will tell us 1930 if you have it there?—A. Quantities purchased from growers?

Q. Yes.—A. 1,568,000 pounds off.

Q. In 1930?—A. 1930 crop.

Q. And the average price paid?—A. Well, I have 1,505,000, which is only a difference of approximately 60,000 in the total, bought at an average price of $31.85 green weight.

Q. 31 cents a pound?—A. 31·85, nearly 2.

Q. Then in 1932?—A. 1931; we are skipping a year.

Q. I beg your pardon.—A. 1931, quantity purchased from growers, 2,001,581 pounds.

Q. Yes, and the average price?—A. $18.73 a hundred—18¾ cents you might say.

Q. 1932?—A. That was made up during the packing season of 1932 and I will have to go elsewhere for that information. You are speaking now, Mr. Sommerville, of tobacco purchased from farmers, tobacco growers, producers. We dry tobacco—

Q. I am talking of what you bought from growers?—A. The year 1932, pounds delivered, 3,154,694 pounds.

Q. At an average price of?—A. 15·32.

Q. Yes, and in 1933?—A. 587,822 pounds at an average of 17¾ cents or $17.75 per hundred.

Q. Yes, down from three and a half million pounds in 1932 to 578,000 pounds in 1933, and the average price was?—A. The average price to the farmer for that tobacco was $17.75 per hundred.

Q. Now, to whom did you sell your tobacco?—A. Principally to W. C. Macdonald Incorporated.

Q. In the year 1930, how much did you sell to them? Give me the amounts in each year.—A. That is flue-cured tobacco. 1930 we sold them 1,378,935 pounds.

Q. That was what proportion of the whole, approximately?—A. Practically all of it.

Q. Practically all of the whole?—A. That was the redried. We get at least anything from 10 to 14 per cent.

Q. There is a shrink of from 10 to 14 per cent?—A. You might say from 9 to 14 per cent.

Q. So that you sold practically all of your 1930 purchases to Macdonald?—A. Yes.

Q. Now 1931?—A. 1,768,815 pounds.

Q. And what proportion of the whole was that?—A. Practically all of it.

Q. And in 1932?—A. 2,778,690 pounds.

Q. And that is practically all of 1932?—A. Yes.

Q. And in 1933?—A. 517,960 pounds.

Q. And that is practically all of that?—A. Yes.

Q. Well then, you have not been selling to anybody else but Macdonald for the past four years?—A. We have sold some tobacco to the Canadian Leaf Tobacco Company.

Q. You have sold some tobacco to the Canadian Leaf Tobacco Company?—A. Yes, a very nominal quantity.

Q. Let us have the quantity that you sold to anybody other than Macdonald in the last four years?—A. I am looking here for some information in this report. I have not looked at it for some time; I should have, not to delay you. In 1930

we sold to the Imperial Tobacco Company 49,783 pounds of low grade flue-cured tobacco, very common.

Q. At what price?—A. Some at $3 a hundred and some at $2.50 a hundred.

Q. And that was after processing?—A. No.

Q. In its raw condition?—A. Raw condition, practically rejects. And we sold the Canadian Leaf Tobacco Company, Chatham, that year, 14,324 pounds at similar prices, I have not got the figures here.

Q. And it would be similar quality?—A. Yes. And we sold to a Mr. Faubert, in Chatham, 8,196 pounds at a very low price.

Q. At what price?—A. It was in the neighbourhood of $1 a hundred, and some fellow in Kingsville bought a lot of culls from us. I did not keep the weight. The transaction was $300.

Q. For whatever you got?—A. Yes.

Q. Now, that is the total in 1930 that you sold outside the Macdonald Company?—A. Except for some possible transactions we had with the Hodge Tobacco Company of Kentucky. We bought on account of the Hodge Tobacco Company of Kentucky, with their money, 47 hogshead of tobacco which went to England.

Q. But that was not included in the raw leaf purchases that you have already given us?—A. No.

By Mr. Kennedy (Winnipeg):

Q. What were your total raw leaf purchases for that year?—A. For 1930, 1,568,000 pounds green weight.

By Mr. Sommerville:

Q. Now then next year?—A. I do not know that I have got any figures available on that.

Q. Well, I think you told us that you sold practically all of it to the Macdonald Company?—A. We sell practically all our entire production to the W. C. Macdonald Company. We are not speculators. As the Hodge Tobacco Company of Kingsville, Ontario, or Canada Limited, we are not speculators in tobacco. We do not buy with a view to holding and selling it at an enhanced price.

Q. And how do you buy for the Macdonald Company, what is the procedure then?—A. The procedure is this, when the market opens I call up Montreal and I say, "Tobacco is selling, to the best of my knowledge at so much."

By Mr. Young:

Q. Dry?—A. Green tobacco, farmers tobacco, from weight, and they may say they wish us to buy so much within a market range, such as I have quoted. Then I go and buy it, but if I do not get an order I do not buy it.

By the Chairman:

Q. You really are agents for the Macdonald Company?—A. We work for them and they are our best customers.

Q. They are virtually your only customers?—A. We do not class ourselves as agents for them because they won't acknowledge us as agents. They have other means of acquiring tobacco.

By Mr. Sommerville:

Q. And then do you get your orders daily from them?—A. If the market is on and I call up daily I get orders.

Q. But you do not get one order to buy two million pounds at the beginning of the season?—A. No.

Q. You get them from day to day?—A. Yes.

Q. And you go out and buy from day to day whatever you have orders for?—A. As nearly as I can.

Q. And that is the system that has been in operation since 1930?—A. Yes, sir.

Q. Then, when you buy it, you process it, do you?—A. We open the factory after the market is over, or about the time the market is finished, and we take it from the farmers throughout the winter months, grade it and pack it in hogsheads—grade and rehandle it.

Q. You do not process it?—A. Yes. Rehandling is the term for redrying the tobacco, the operation from the farmer to the hogshead.

Q. You put it into hogsheads and that is shipped to Macdonalds, then in the processing there is a percentage of what you call shrink, from 9 to 14 per cent?—A. Yes.

Q. What is your charge for processing, apart from that?—A. You are speaking now of 1931.

Q. If there has been any change in the price, let us have it?—A. Prior to 1930, I would say from memory, we did not do as much work on the tobacco as we have been doing in the last few years, due to the fact that we do what we call leaf grading—putting the leaves leaf by leaf in various grades. We have had an additional charge for that work in the last few years. In 1930—our usual charge is the value of shrinkage alone. A dollar a hundred has been the commission for buying tobacco.

Q. For buying?—A. That is, establishing field forces, following all through the country and buying the leaf. I can allocate part of that dollar to any head I like. Two dollars a hundred for handling through the factory, redrying and putting into hogsheads. And the actual cost of the expenditure for the purposes of leaf picking, which is done on a piece-work basis and I know from year to year how much it costs me.

Q. What do you mean by leaf picking?—A. Leaf grading, that is in the plant. It is an operation which we did not do 6 or 7 years ago. Whatever the actual cost is I add to my selling price.

Q. You add that to your selling price; in the year 1933 what did it amount to?—A. That was the year of an average crop.

Q. In 1933, last year?—A. I beg your pardon, in 1933 the spread between the price paid the producer and the price we sold the tobacco at was $7.55 per hundred pounds.

Q. $7.55?—A. Yes, and I can give you an analysis of the cost of the various things that entered into that.

Q. You add the specific items which you have given us?—A. Plus the actual cost of the raw material.

Q. And that comes to $7.55?—A. Our selling price is $7.55 over our cost, the price of the raw material.

Q. $7.55 made up of the items you have given us?—A. Yes, the shrinkage item is the biggest individual item.

Q. Last year it was, how much?—A. 1933 worked out to $2·394 per hundred.

Q. And the next item was?—A. The commission for buying, that is based on the 100 pounds on the re-dried weight.

Q. On the re-dried weight?—A. No, excuse me, it is based on the green weight. It works out on the re-dried weight at 1·13, and 2 cents a pound for handling—that covers all our factory operation, $2 a hundred, and the cost of the leaf grading and re-tying this tobacco into hands and preparing it for the machine was $1.78.

Q. And that made up a total of?—A. Wait a minute, including freight—freight from the farm to the factory, we are located 150 miles from the main belt now, and we charge 24·1 a hundred.

Q. Now then, Mr. Lockwood, what were the profits of the Hodge Tobacco Company during these years?—A. I think you have the statements, haven't you, Mr. Sommerville; I mean the year 1930.

Q. Yes, you could give them to me in succession, one after another?—A. In the year 1930 we had a loss of $9,193.66. In 1931 we had a loss of $763.33.

By the Chairman:

Q. What do you do with these losses, put them in reserve?—A. Charge them up to the little surplus which we had before that, sir.

By Mr. Sommerville:

Q. Yes, then 1932?—A. 1932 we had a profit of $29,593.58.

Q. That was the year of the low prices?—A. It was the year of a large volume of turnover, and this $2 to $3 for handling on more tobacco made the profit.

Q. Yes, and the next year?—A. We had a profit of $35,664.25. May I tell you what our profit was as at April 30, 1934.

Q. All right, if you have it?—A. I have not got the figures here but the statement was made up to the first week in May. We were showing a loss of between $20,000 and $25,000.

Q. On this year's operations?—A. Ending April 30 last.

By the Chairman:

Q. What are your total salaries, including executives?—A. They run from —let me see—about $19,000 to $20,000.

Q. Around $20,000?—A. Somewheres. We lost a high priced man through death in 1932, and we replaced him with a younger man with a smaller salary. They average around $20,000.

By Mr. Edwards:

Q. Are there bonuses in addition to salary?—A. Sometimes if we have a good profit the employees get from 5 to 10 per cent, sometimes $100.

Q. Are there any bonuses to executive officers in addition to salary?—A. Yes. In the year 1933 last year, I myself had a bonus of $1,000 for the year 1932 and the year 1933—$2,000 all told, I got it in a lump sum.

By the Chairman:

Q. You are the President, aren't you?—A. It was voted by the shareholders.

Q. Quite all right, I mean it is really very modest to what we have been used to.

By Mr. Young:

Q. This $20,000 includes the little salaries and everyone?—A. That is correct.

The CHAIRMAN: That is the total.

By Mr. Sommerville:

Q. What about the dividends paid?

The CHAIRMAN: This peculiar stock, this non-dividend stock held by the Chairman.

The WITNESS: The dividend paid—I do not think I have the whole detail of it, but they have been nominal. The Hodge Tobacco Company of Kentucky have received—we figure on giving them about 6 per cent on their investment.

By the Chairman:

Q. About what?—A. About six per cent. We figure that is a fair return on the money they spent on our plant. And if I remember correctly, we have paid them six per cent since 1925. But you must subtract from that three years they didn't get it. In other words, if we owed them seven payments of six per cent,—if we owed them seven, they have only had four.

Mr. EDWARDS: Not accumulated.

By Mr. Sommerville:

Q. Your accumulated surplus is what?—A. Accumulated surplus? I think that is modest, too. It would be less now than in the last statement I had. April 30, 1933, was $61,952.83.

Q. What was that date?—A. April 30, 1933.

Q. I didn't get the amount?—A. $61,952.83; and we now have to write off that about $23,000 or $24,000.

Q. I understand the Stewart stock is non-profit bearing?—A. Non-dividend bearing.

Q. It is non-dividend bearing; and therefore no declaration of dividends on that. The six per cent you referred to is six percent— —A. Owned by Hodges.

Q. Owned by Hodges, and it is not six per cent on their shares?—A. Six per cent dividend on their investment in the company.

By the Chairman:

Q. Is that surplus ear-marked?—A. For what purpose?

Q. What you mentioned, $60,000; is that ear-marked for anything?—A. No, nothing in particular. We use it.

By Mr. Sommerville:

Q. Is it ear-marked in such a way that it goes to the Hodge Company?—A. If we wound up the business, they would get it.

By the Chairman:

Q. All of it?—A. I think so. Wait a minute, now—I don't think so, no. They would get it in relation to the 51 and 49 per cent, I would think.

Q. In other words, if there are any profits accumulated over the years... —A. If we declare any dividend, we pay it to them.

Q. It would stand on your books as a surplus, distributable to the stockholders, whomsoever they were?—A. I would think so.

By Mr. Sommerville:

Q. I presume you could declare a dividend of practically that now?—A. We could declare a dividend and wipe that out.

By Mr. Young:

Q. In buying tobacco, do you follow the same procedure as the Imperial, and have your men going through the fields from time to time, keeping tab on the crop?—A. From what I heard of the way they conduct their procedure, ours is very similar.

Q. It is very similar?—A. Yes.

Q. You have a pretty good idea of each man's crop?—A. No, we don't cover them as thoroughly. We are very much smaller buyers; and it is a rather expensive operation to have to keep about nine men in the field for three months, you might say, supply them with cars and have them running all over the country keeping track of tobacco you know you will never buy.

Q. Have you any idea in your mind as to whether or not it would be practicable to establish standard grades and uniform spreads between grades, not fixed for all time, but have the spread uniform between No. 1 grade and No. 2 grade, and so on?—A. That is a matter of opinion between users of tobacco; and I would not say it would be possible or practicable, because there is a wide variation in opinion as to quality of certain tobaccos.

Q. Do you think it would be practicable to make standard grades?—A. I don't think you could make standard grades—at least, you could make standard grades, but whether it would suit the various people who were going to ultimately use that tobacco, I don't know. You could make standard grades, yes. You would need about seventeen or eighteen.

The CHAIRMAN: Now, gentlemen, it is six o'clock. We will adjourn until eleven o'clock on Monday.

The committee adjourned at 6.05 p.m., to meet on Monday, April 14, at 11 a.m.

HOUSE OF COMMONS, ROOM 368,

May 14, 1934.

The Special Select Committee on Price Spreads and Mass Buying met at 11 a.m., the Hon. H. H. Stevens, presiding.

Mr. NORMAN SOMMERVILLE, K.C., of Toronto, appeared as Counsel for the Committee.

The CHAIRMAN: Order, Gentlemen. The Minutes of the last meeting simply record the names of witnesses and certain documents filed, that is all, and we will order the minutes approved.

All right, Mr. Sommerville, who are you calling.

Mr. SOMMERVILLE: I want to file the financial statements for five years of L. O. Grothe.

(Statement filed as Exhibit 137.)

And the financial statement of the Rock City Tobacco Company for five years.

(Statement filed as Exhibit 138.)

And the financial statement of the Canadian Leaf Tobacco Company.

(Statement filed as Exhibit 139.)

And the financial statement of the British Leaf Tobacco Company, also for five years—1929-1933.

(Statement filed as Exhibit 140.)

This is all for the purpose of preparing a statement of the whole situation in the tobacco industry.

Mr. Francis Gregory, recalled.

By Mr. Sommerville:

Q. Mr. Gregory, in the evidence of Thursday last we left off at that point where you intimated that Mr. Lea on his return from Montreal sent out buyers to buy at an average of 18 cents?—A. That was before my return to Delhi; yes, sir, at an average of 18½ cents.

Q. Yes, an average of 18½ cents; that was before you got back to Delhi on the Monday morning?—A. Yes, sir.

Q. And when you came back you found that this was the condition that existed?—A. Yes, sir.

Q. Well, what does that mean, then, in terms of buying tobacco; was tobacco being bought on its value at all, or was it just a price that was fixed?—A. No, sir. As conditions developed over the next several days I felt quite ashamed of it. We have taken pride in the value of tobacco. If you say a top price of 30 cents for a crop, that crop falls into its logical place. The growers have been educated to our way of doing business for the previous 25 years, and they had felt confident when we place a value on a crop of tobacco that it was about right; and in a market of that kind when there was some tobacco over—more than

would be taken—it was like shooting chickens in a barnyard. That is, you could buy tobacco for almost any price; therefore I felt responsible even more. If it was a market where a farmer could take care of himself—with some competition—why then sometimes you had to pay too much, and consequently you would try to buy on the under side; but when it got near to the point that practically nobody else was buying much tobacco, I thought there should be some standard of value—if you got, as I said to Mr. Buell, say 25 cents for the best crops and then let each crop fall in its place.

Q. Then do I understand, following this return of Mr. Lea from Montreal, that the price paid had little relation to the quality of the tobacco bought?—A. Quite often.

Q. That is a fact, is it?—A. Yes, quite often. I was striving to get the business back to some reasonable basis.

Q. And you found that Lea was offering 18 cents for tobacco that was worth more than 25?—A. Yes, sometimes. Better crops had quite largely been taken up, but there were good crops left.

Q. And as a result of that you finally did get Mr. Buell to consent to letting you pay for some crops at 25 cents?—A. Those crops when they were worth it.

Q. When they were worth it, yes. There were a large number of crops that were worth 25 cents or better, that were bought for 18 cents or less?—A. Yes, they were bought down, I can't remember—we will say that we were buying considerably under 25 cents—yes, we bought at 18 cents, 20 cents, and so forth.

Q. Well now, perhaps you knew Wilson, one of the buyers—J. B. Wilson?—A. Yes, sir.

Q. And I have before me Wilson's buyers' grade book, and I observe that on his grade book an owner, Ed. McMullen is described as having 16 acres of "good" tobacco, 18,000 pounds, which grades as follows: "fancy" 3 kilns, "good" 2 kilns, "good medium" 6 kilns, and "medium" 1 kiln; a total of 12 kilns. And I observe that the price which is fixed on the right hand corner of the page at the top is 30 cents?—A. Yes.

Q. And that would be a top price; that was for a top crop?—A. Yes.

Q. And that description would describe a top crop?—A. Yes.

Q. In other words, a top crop would not be all "fancy"?—A. That would be impossible.

Q. And the top crop would not be all good?—A. I would say a top crop would have an average better than "good medium"—"good medium" and "good", and some "fancy"; and, of course, you would have a "medium" kiln or two as well.

Q. In other words, a top crop would have enough different grades right down the line that the average would be somewhere between "medium" and "good"?—A. Yes, sir.

Q. And that is what you describe as being a top crop for which a top price was paid?—A. Something like that.

By Mr. Factor:

Q. And that figure up in the corner of the page is the estimate that the buyer put on as an indication of the price to be paid for that crop?—A. I think that is the figure we put on prior to the market opening; we went over and valued each crop.

By Mr. Ilsley:

Q. Not for a top crop, but for that crop?—A. Yes, that is right; 30 cents for a top crop, and on down for the crop.

By Mr. Sommerville:

Q. I observe in the statement showing daily contracts for purchases of flue-cured tobacco, 1931, on the first page Ed. McMullen, Otterville, was paid 30 cents for 17,000 pounds; that is the man?—A. Yes, sir.

Q. So that on that day he got 30 cents for the 17,000 pounds that were in that crop?—A. Yes. Now, in that book there the commoner—I think in some cases we valued on the high side, the value of the book, we bought at times on the low side—they were valued—there is no doubt if I had been doing it myself that on the commoner crops there I would have reduced the price some.

Q. Let us take VanKeribrook, of Norwich?—A. Yes, sir.

Q. I observe on the page in this book that he had a crop which is described as 34 acres "good", 38,000 pounds; and that crop is graded, 31 kilns of it?—A. Now, the "good", when it says 34 acres good that meant the tobacco growing in the field. It may have turned out, of course, from the flue—as people tell you it would be possible for a "good" crop to turn out not so good.

Q. Not so good in the grading?—A. Yes, sir.

Q. That is true?—A. Yes, sir.

Q. Now then, we have this same crop graded: "good" 4, "good medium" 6, "medium" 13, "common" 6; a total of 31 kiln. And I observe the price in the right hand corner at the top of the page was 24 cents. Will you look at that? That is correct, is it not?—A. I think so. In Mr. Wilson's judgment. He was a pretty good man. That would indicate that the crop was worth 24 cents, I think; that is the price he has on it.

By Mr. Senn:

Q. What does that 24 cents indicate to you, Mr. Gregory, as a buyer? You heard what Mr. Lea said here, that it would not indicate anything to him?—A. That was the price Mr. Wilson put on the crop, prior to the market being opened evidently, if we take the outside top price to be 30 cents. It is quite evident after we decided on a 30 cent top price that Mr. Wilson had valued this crop accordingly. I think in some cases "medium" and "common" crops are valued a little on the high side than if I had been buying it myself. I would have reduced some, but not to the extent to which they did.

Q. You heard Lea say that he paid little or no attention to these estimates, that as a buyer, or head buyer, he did not pay any attention to them?—A. Oh yes. If I were out with a buyer, and we bought this crop, before we got to the next crop I would say, let us see the book; and while we were going from this place to the next, we would have our information and knowledge of the crop before we got there.

Q. Then you do think that the estimate contained in these books were of real value?—A. Oh yes, we had spent some years getting them up.

By Mr. Sommerville:

Q. Then I observe on the statement showing the daily contracts of purchases for the 1931 crop, and October 13; now, that was the day after Mr. Lea's return from Montreal, that Henry VanKeribrook was paid 19 cents for 32,000 pounds, and 5 cents for 6,000 pounds?—A. 5 cents for 6—that would be about 16½ cents.

Q. That would be about 16½ cents average?—A. Yes.

Q. So that all he got was 16½ cents for this crop which was valued at 24 cents?—A. And might have been probably marked down a couple or three cents.

Q. And you say it might probably have been marked down a couple or three cents; well, let us say a couple of cents, and that would make a difference of at least 5 cents or 6 cents a pound to him?—A. Yes.

Q. And that would make a difference on 38,000 pounds at 6 cents of about—.—A. $2,280.

Mr. Factor: The 5 cent crop must have been of an inferior quality.

Mr. Sommerville: I was just going to ask him about that.

By Mr. Sommerville:

Q. Tell me, Mr. Gregory, what this "5 cents" means in the system?—A. That may mean a number of different things. To begin with: 31 or 32 years ago in buying burley tobacco from Canadian farmers we discovered that, say the top price was 6 cents and a man had a real good crop, and you wanted to give him 6 cents, and that was the price at that time; the next neighbour, maybe a brother, would have a crop which might stand at 6 cents, but you go to the next neighbour and he would have a crop not worth 6 cents, but he had a good deal of pride in his farming. He might be a relative, they would be going to church on Sunday, and, of course, they would talk about their tobacco. We considered giving him 3,000 pounds at 2 cents, and a certain amount at 6 cents—we would bring the average price to what we thought it was worth, but we would buy some at 6 cents, and he could tell then that he got 6 cents for his tobacco.

Q. But, of course, you paid an average?—A. That is one way.

Q. And J. B. Wilson was one of the buyers who was with you for a great many years?—A. Yes.

Q. Then he had used this method for years in arriving at an average on a crop?—A. Yes, sir. It may be though that there were times—it is used more often in the manner I have described, but there were times when a man would have, we will say, two definite lots of tobacco, or he may have 3 kilns of very poor tobacco, and if you stick to the amount estimated in these kilns, and pay a different price on it, that is a reasonable economic thing to do.

By Mr. Young:

Q. Is not that the proper way to buy? Why should you buy a crop on an average? Why should you not say, you have so many pounds "fancy," we will give you so much; then you have so many "medium," we will give you so much for that. Is not that the proper way to buy it?—A. It can't be done. After all, it is largely on our judgment and experience looking it over. You take 40,000 pounds of tobacco and these different kilns, all you can do is make an estimate. If you were to buy, say 6 kilns at one price, and 8 or 10 at another price, a great many of the farmers would take the good tobacco out of the commoner prices and put them in the other. After all, the thing to do is to look over the crop and try to arrive at as good a conclusion as you can as to its value.

By Mr. Senn:

Q. Would you prefer then a system of buying by auction, as practiced in the United States?—A. This system was ideal as long as the domestic—it is a unique system, a different practice from any other place I know of. I started with it when 19 years old and grew up with it, and I would say it was ideal as long as these Canadian manufacturers—the Imperial Tobacco Company especially and largely—could take and needed all of the Canadian tobacco. It is unique and different from anything else being done. We were accustomed to it and the farmer had been accustomed to it, but when the business grew to the proportions that half or more than half of the tobacco has to be exported, it is out of date; in other words, can you expect, with 800,000,000 of 400,000,000, 500,000,000, 600,000,000 more than they need—and the English manufacturers

and manufacturers all over the world are accustomed to buy through that way, and in that channel of trade, and it is rather hard to get them to change their method; to give away twenty-five million.

By the Chairman:

Q. That is for the export trade?—A. Yes.

Q. Auction buying similar to that practised in the United States would be preferable?—A. I think so.

By Mr. Senn:

Q. Would there be much difficulty in changing the system? Is it feasible to change the system?—A. I would think so, yes. I don't see any insurmountable difficulty.

By Mr. Ilsley:

Q. Mr. Gregory, you heard Mr. Miller state, did you, that the Imperial Tobacco Company did not lower their top price below 30 cents during that buying season, and that the later purchases at apparently much lower prices were due to differences in quality? Did you hear that evidence?—A. Yes, I heard part of it.

Q. What you say is that that is not true, because Mr. Buell told you— —A. I think Mr. Miller is mistaken.

Q. Just a minute, I want to get it straightened out in my own mind, at least. You say that is not true because Mr. Buell fixed a 25 cent top price in a telephone conversation with you from Montreal, is that correct?—A. Yes.

Q. That is the conversation where he said, "Pay them a quarter"?—A. I don't remember that he used the word "top", but I told him it was a nice crop of tobacco, and probably the first day it was worth 27 or 28 cents, and after discussing the matter, he said to give them a quarter.

Q. Yes, I had in mind the conversation where he said to give them a quarter. That meant to give them a quarter for the top price, did it?—A. I took it for that, yes. I think the record will show whether we paid more than 25 cents after that or not.

Q. As I understand it, you say even if those instructions had been followed, to pay 25 cents for the top crops— —A. In an intelligent manner.

Q. —in an intelligent manner, the farmers would have got more than they did. As I understand your answer to Mr. Sommerville this morning, it was to this effect, that the top crops were purchased at much lower than 25 cents despite Mr. Buell's instruction to pay 25 cents for top crops. Is that the effect of your evidence?—A. I think that happened quite often. The record there will show. Three years is quite a time. I think—yes, I am sure of that. There seemed to be no top or bottom to it. It was chaotic for a while.

Q. I was trying to test what Mr. Miller said, because he was very emphatic. He went away and he took time to consider it, spent a night on it, and came back next day and said, "We never dropped that 30 cent top price." You say they did, because Buell said to pay them a quarter. You say even that was not adhered to, because these irresponsible buyers went out and bought for 18 and 16 and 15 and so forth when they should have bought on a 25-cent basis, and they should have paid a lot more?—A. The buyers were very frightened, and in a predicament, having regard to the instructions they had from Mr. Lea, and they were demoralized as well as the farmers.

By Mr. Sommerville:

Q. What do you mean by "they were in a predicament", the Imperial buyers; what do you mean by that?—A. Well, prior to my arrival there, they had very definite instructions from Mr. Lea. I said to the only man left at

the factory when I got in—I think it was Mr. Taylor—"Where are the buyers?" He said, "They are in the country. Mr. Lea instructed them to go out and buy tobacco, and come back with an average of 18½ cents." Where I think that was all wrong, they were trying to buy the better tobacco. If you go out to buy tobacco at 30 cents, buying 30 cent tobacco, good tobacco, and buy that type of tobacco and your average is 30 cents, you come into a medium tobacco which is 25 cents, and you never get your average until you get through. It is ridiculous to go out and try to get an average of 18½ cents when you are trying to buy the best tobacco.

Q. As a result, the growers suffered?—A. Yes.

Q. Then as a matter of fact, I think you did take Mr. Buell out with you, and showed him some crops of tobacco that you wanted to pay more than 18 cents for, didn't you, when he came up later?—A. I remember taking him to one crop after buying had progressed quite a while. I believe it has been stated, and I think it is a fact, that we got an additional order from G.B. to buy—the Imperial of Great Britain and Ireland. They wanted more real good tobacco. There was a crop owned by one Mr. H. A. MacDonald, I think it was, that Mr. Lea had offered probably 18 or 20 cents for. He would not take that. In discussing where we could go and buy better tobacco—he wanted some good tobacco—I took Mr. Buell out to Mr. MacDonald's and we looked the crop over. I think in discussing it with Mr. Buell after we looked at it—he didn't put a price on it, he hadn't done the buying, but nevertheless I talked to him, got his opinion, and I think he agreed—we offered Mr. MacDonald 25 cents and he would not take it, if I remember right. He eventually did take a price not less than 25; whether it was 26 or 27 I don't remember. You can find out in the books.

Q. In any event, that was the crop for which Mr. Lea had offered 18 to 20? —A. 18 or 19 or 20, something like that.

Q. Did you see Mr. Harrison on the field in 1931?—A. I cannot say on the field. Mr. Harrison came up—yes, that is right. He went with me out to see the crop we were buying at the time. He was in the factory, and we went out in the country.

Q. Did you have any discussion with him about conditions?—A. Well, I talked to him some about conditions, and Mr. Harrison, as you know, is from the south, although he does travel as has been stated, world wide. But I think his experience has been in the auction market in the south. In fact, I think every tobacco man who has experience in flue-cured tobacco, has had that. I tried to explain the difference in auction buying, where there is no responsibility—it is on the last bid—and the condition such as this. I told him that there was a different standard of living here. I remember saying that these people very much resented being put on a level in regard to standard of living, prices and so forth with the southern pauperized tobacco growers; that they were not hard to handle; but you could not figure it on that basis, there were different costs here and a different standard of living.

Q. Did you think that was what the system was leading to, a pauperized industry here?—A. As I remember it, Mr. Harrison then was reasonable in his talk. I wanted to explain that things were different here, that probably I would go sometimes and buy a crop of tobacco at 18 cents or 20 cents when I could have bought it for 14 or 15. Where there was great power, it brought great responsibility, and if you followed the practice to buy each crop just as cheap as you can get it, and to bear down all the time, yes, it would lead to that condition.

By Mr. Young:

Q. Did Mr. Harrison make any remarks about the prosperity of our tobacco growers?—A. I can't recall him.

By Mr. Senn:

Q. Mr. Gregory, you advocate the system of buying by auction. That practice is followed on the other side of the line, and yet you say the industry is pauperized over there?—A. It was at that time.

Q. Why prefer the auction buying then?—A. Right now it is not. They got very good prices last year, and did in the war times and immediately thereafter. No system is ideal. But if they had this system there, I think it would have been much worse than it has been.

By Mr. Sommerville:

Q. In other words, the barn buying system leaves it entirely in the hands of domestic buyers?—A. The barn buying system naturally will work. I don't think for a minute there was ever any collusion between the Imperial Company or any other company in my time. They are buying for the Imperial of Great Britain and Ireland, but leaving that out, there has been no combine in any way, shape or form that I have known of. Yet this system of buying works in the hands of a large company or one which is large enough to dominate. It is an unwritten law that nobody else now will raise the Imperial top price. That is not by combine or agreement, but it is good business on the others' part. In the auction system, there is no such thing as top price. One pile will bring 75 cents and one 3 cents, and so on.

By Mr. Factor:

Q. The market price paid for the 1933 crop in the United States averaged 15·2 cents?—A. Well, a good part of that tobacco was sold before the rates were raised by government action in Washington, and that has figured in it. I believe that after that was done, a large part of the crop sold in the old part averaged 17 and 18 cents.

By Mr. Sommerville:

Q. After the government intervened and insisted upon the price being made higher?—A. This company, in my opinion, was very fair to the growers, and there was good relationship between the growers for thirty odd years until the change came about that I have told you of. We had investigations before, and we came out in good shape.

Q. At any rate, you did have a discussion with Mr. Harrison who was there in 1931, in the course of which you represented to him that these growers could not be put in the same position as southern growers?—A. I told him I thought it would be bad for anybody to try to do it. I thought it would lead to a condition such as you have here to-day. I predicted it—I don't know whether I predicted it to Mr. Harrison or not, but I predicted it to a great many people, members of the company. My brother, W. T. Gregory, did too.

Q. Your brother and you predicted this condition that has come about to-day?—A. Yes.

Q. By reason of the practices that were adopted?—A. Yes.

Q. Did you discuss that chaotic condition with Mr. Buell?—A. Yes, I did.

Q. What was Mr. Buell's explanation for the chaotic condition of the buying?—A. Too many fingers in the pie.

Q. Too many fingers in the pie; that was his statement. What did he mean by that?—A. I inferred that it had gotten somewhat out of Mr. Buell's and my hands. We understood this little, unique, individual way of doing business; and the other officers in the company superior to himself, or the British Amercian Tobacco Company—in other words the New York management or London, whichever you want to call it—I guess the headquarters over here are in New York—were having too much to say about something that they didn't just exactly understand.

Q. And his intimation was that there were just too many fingers in the pie?—A. Yes.

Q. Did you discuss with him the policy that was being put into effect by Mr. Lea, and the chaotic condition that it produced?—A. Yes, sir. Mr. Buell seemingly didn't want to hear too much about that.

Q. Apparently not?—A. I covered that as well as I could, and showed him that crop that he and I gave 25 cents for had been offered 18 and 19; and other occurrences such as that.

By Mr. Factor:

Q. When did you leave the service of the Imperial Tobacco Company?—A. My resignation was demanded on May 1, 1932, at the finish of the 1931 crop.

Q. It was after the 1931 crop was marketed?—A. Yes.

Q. You resigned May 1, 1932?—A. Yes.

By Mr. Young:

Q. Why did they demand your resignation?—A. Well, it is a long story.

Q. Has it anything to do with buying tobacco, your attitude toward the farmers?—A. Well, I would not say just the attitude towards the farmers. There was a question of my handling fertilizer involved, and that could be explained. It would take a couple of hours.

The CHAIRMN: We will spare you that.

The WITNESS: I think the main reason was this: We have seen that Mr. Lea came from Montreal, back and forth, and I think it was through representations of his that he wanted me out of the job and himself in, largely.

By Mr. Young:

Q. What I want to get at is was it because you were paying too much for tobacco? Was that the trouble?—A. Well, I don't know whether I could say that or not.

By Mr. Sommerville:

Q. You don't know that that was the reason. There was some reason, at any rate, and as a result you resigned?—A. Yes.

Mr. HEAPS: His resignation was demanded.

The WITNESS: Demanded, yes.

By Mr. Sommerville:

Q. In 1931 the purchasing program was not an orderly purchasing program at all, according to your evidence?—A. No, sir.

Q. How would you describe it, to put it very briefly?—A. Well, I think it was bungled.

The CHAIRMAN: That is a good, old word.

By Mr. Sommerville:

Q. Bungled; that is a good, old English word. And as a result, the growers suffered. We have had the evidence before of Mr. Hagerman's crop, which was marked in the book as 24 cents. Just look at Hagerman's crop there. (Handing book to witness.) It is marked 24?—A. Yes.

Q. I observe that 30,000 pounds are bought at 18 cents on October 13, the day after Lea's return from Montreal; that means a drop of 6 cents a pound on 30,000 pounds, or $1,800?—A. From the description of the crop there, it looks like it was priced a little high, even at 24 cents.

Q. A little high even at 24 cents?—A. Yes, not even, but at 24 cents. I think it was priced a little too high in the beginning.

Q. On the key it works out at 24. As a matter of fact, it works out at 25 on the key?—A. Yes.

Q. The price 24 is a little less than the key indicates; but you think it was a little high. When you say "a little high," what do you mean, one cent or two cents?—A. Oh, we try to buy these crops first, and getting into a crop like that I would think, in the natural sequence, to revise one like that to 21 or 22 cents.

By Mr. Ilsley:

Q. Why would you have lowered it to that, on a 30 cent basis?—A. Well, I would think from just looking at that quickly there, there was not any question if the bought amount and the key worked out. There was a medium crop of tobacco over in that section, if I remember, that year.

By Mr. Sommerville:

Q. According to the key, it had worked out at 25 cents and then it had been priced at 24 cents?—A. Yes, I doubt in the key if we had made enough difference there in the best crops, and one such as that—as I say, it is largely a matter of judgment. You can't get it right to a cent.

Q. But on buying orders in the second week, after Lea's return from Montreal, the price would be affected?—A. Very largely. What was given for it?

Q. 18 cents; that was the price that was quoted by Lea on his return?—A. Yes.

By Mr. Factor:

Q. What would you have paid for that crop if you had charge of the buying, from the picture as you see it now?—A. Well, I saw the necessity of lower prices on medium and common tobaccos, something lower. I guess I would have given him about 20 or 21 cents—21 cents. You have to be affected somewhat by how much you are buying. If you are going to buy 100 horses and you have bought 80, you are not going to be so keen about the next twenty.

By Mr. Sommerville:

Q. I understand that you had earlier intimated to the farmers that there was likely to be an over-production?—A. Yes.

Q. And you had prepared an article for the Simcoe newspaper?—A. Yes, nearly every year, for several years.

Q. The first one apparently was in 1930?—A. Yes.

Q. And that year there was a short crop?—A. Yes, nullifying our recommendation.

Q. So with that short crop it was not necessary then to follow that up?—A. No.

Q. Then in 1931 there was the larger crop. By the way, had any of those intimations come from Montreal headquarters, about warning the farmers as to any likelihood of overproduction, or was it entirely on your own?—A. On my own, but I talked to Mr. Buel about it, and maybe after I wrote an article I sent it to him. He left things largely in my charge; he concurred in it anyway.

Q. However, nothing initiated in or was announced from Montreal with regard to notifying the farmers, that you had heard of; they had sent out no circulars up to 1931?—A. No.

Q. Or no announcements?—A. No.

Q. Then in 1931 when you had a fair crop, did you buy from those who had been your old customers, or was the policy changed?—A. That was a bone of contention. In 1931 they wanted to make what I thought was a radical departure. I had dealt with people this way: You see, we promoted this business from nothing up to its present proportions, and they were treated as customers,

that is, a farmer, you might say a good farmer and an efficient farmer, one who had used his farm for tobacco growing, and who for nine times out of ten, or eight times out of ten, would have a good crop, would be treated as a customer, and furthermore, that whenever I knocked on his door to buy his crop he would sell it at the price I offered him. I think he would be a customer, don't you.

Q. Well, I would think so.—A. We had regard to our responsibility, but we had to try and give him a fair price. Then in 1931 when apparently there was too much tobacco, I strongly advised that we would buy first from those customers, those who had put their money in the business because of their past association with us, and those whom we had bought from in previous years, and then when we needed more tobacco we would go to those new growers.

By Mr. Factor:

Q. That would be discriminating against the new growers?—A. No, we would be assisting those who had put there money into the business because we had advised them to. I think that man should be taken care of first rather than a new man who never had grown any tobacco, or never had sold any tobacco. We would not be discriminating against the new fellow by taking care of the old fellow first. But they took the position,—Mr. Lea pointed out that wherever tobacco was to be bought we had to buy it regardless of any past association. I disagreed with that for two reasons. I thought there was a moral responsibility to deal with those who had put their money in the business because of their faith in us, and secondly with the idea of stopping new growers we would put these pieces in the paper advising them not to grow tobacco, and because of having done that then to go and buy whatever they did grow, well then you might as well never have put your advice in the paper.

Q. In other words, you were advising against over-production and to buy from people who were new producers would simply be encouraging them?—A. Yes.

Q. And the result was, that that year some of the old growers were left with their tobacco while some of the new growers sold their first crop?—A. That is right, and the new growers would come up every year, and they knew that their neighbour had sold his first crop the previous year and they would say they were going to do the same.

Q. And that added to the difficulties of the farmers during that year?—A. Yes. That would add to the difficulties next year; that would encourage more growers to come in next year and add to the difficulties of those old ones.

Q. And that would encourage increased production?—A. Yes, sir.

Q. Now next year 1932. You have given us a picture of the panicky condition in 1931. What do you say as to the buying practices in 1932?

Mr. Factor: I thought he had resigned in 1932.

Mr. Sommerville: Yes but he was there on the grounds.

By Mr. Sommerville:

Q. You had lots of tobacco?—A. I had eight farms.

Q. And what do you say as to the buying in 1932?—A. Well, of the three years 1931-1932-1933—I think the farmer has much more cause for complaint—he has cause for complaint, as we said, in 1931, but 1932 was the best crop of tobacco, even better than 1931, and I think that was just too bad.

Q. What do you mean by "Just too bad"?—A. In so many cases good tobacco sold below the cost of production, to a greater extent than it did in 1931.

By Mr. Ilsley:

Q. What about the methods? You are being asked about buying methods?—A. Oh, the buying methods.

The Chairman: Start out with the question of delay in opening.

By Mr. Sommerville:

Q. What was the effect of the delay in opening that market? Orinoco and Yellow Mammoth were grown largely at the request of the Imperial, I understand, and now you had a large quantity that was being primed instead of being harvested by the old method, and we have the evidence that it was ready for market about two weeks earlier. Now, what effect had the delay in opening the market till the 26th October have upon the situation, Mr. Gregory?—A. Of course, it would make the farmers very anxious and very nervous, but I do not say that that would contribute very much, because the Imperial Tobacco Company could have started in at 18 instead of 24 that year. They could have gone out and bought it as cheap as they wanted to, only the Agricultural Department stepped in just as they did.

Q. But it all added to the panicky condition of the farmer?—A. Yes.

By Mr. Ilsley:

Q. There has been a lot of talk about the panicky condition of the farmers. Would it lead them to think that they were not going to buy the crop at all?—A. Well, they get so nervous after the tobacco is harvested; they stay at home waiting all the time expecting somebody to call.

By Mr. Senn:

Q. I suppose their commitments were coming due too, were they not?—A. Yes.

By Mr. Sommerville:

Q. They have to pay their grocer, and so forth?—A. There was so much hardship in the fact that they delayed it. I always try to get them to open the market earlier because we want warm weather if we can get it for our operations.

By Mr. Factor:

Q. The year before it opened on October 6th; there was only twenty days' delay in opening?—A. Yes.

By Mr. Sommerville:

Q. Yes, but you had a crop that was harvested two weeks earlier?—A. I think it was just bad business on their part not getting ready sooner and buying it, but I do not believe that they did it to depress the market because, as I say, I do not see any sense in it as they could have bought it at any price anyhow.

By Mr. Ilsley:

Q. These farmers knew they were coming some time?—A. Yes.

Q. And they are intelligent, I take it; they impressed me as being a very intelligent class of farmers?—A. They are a very intelligent class of growers.

Q. Then what would a two or three weeks wait add to their panic?—A. I suppose they would figure that the buyers should have been out earlier. You see, they put their whole year's work into it and each day looks like a week, I imagine, to them.

Mr. SOMMERVILLE: Well, apparently Mr. Sutherland thought, when he was going down there interviewing the dirt farmers, that it had some effect on them.

The WITNESS: If now there was a very competitive market and not quite enough tobacco and the farmer had a big price in his head, it would be a good thing to do, wait until he got down to earth.

By Mr. Sommerville:

Q. But when you were getting down to an average price of 16 cents, which was about 50 per cent of the price of 1930, then would it not have an effect in softening the market for the blow that was to come?—A. It would make them easier to deal with.

Q. And then when the market did open at the price that was mentioned, what was the immediate effect when they got down to the top price of 24 cents?—A. Oh, I don't think the farmer felt so badly then. They may have expected more, but when good tobacco, not top tobacco but good serviceable tobacco is being bought for 15 cents, as it was, then they were in a very very bad condition.

Q. Yes, and that is the condition that did exist?—A. That condition did exist, when tobacco sold from 12 to 15 cents. Now, I do not mean top fancy tobacco, but I mean good, ripe serviceable tobacco.

By Mr. Factor:

Q. And did Mr. Lea have charge of the buying of the 1932 crop?—A. He had had charge of it since I resigned, and before too.

By Mr. Sommerville:

Q. Now, what was the method of buying that season? Was it by the old method that had been practiced for some years, or was it through a changed method of just sending out the men to buy the crops and bring them in, or extending the buying over a number of weeks?—A. I hadn't anything to do with it. That was probably the cause, but I would not censor them too much for that, or any for that if they paid a reasonable price when they did buy it.

Q. Now, can you say whether there was any uniformity in the price paid for the different grades that year, or do you know?—A. Well, I sold the Imperial two crops that I considered A1 crops, at 20 cents. One was, I would say, an extra crop, a crop that I think was worth within a dollar of the top of the market. That was one, but I could only get 20 cents for it.

Q. You could only get 20 cents for it?—A. Yes.

By Mr. Senn:

Q. Did you sell different crops of the same grade at different prices, were you forced to do that?—A. I think this crop that I have in mind right now was bought at two prices, but I think it averaged about 20 cents. And then I had a second crop as good. It was a real good one and I got 20 cents for that. But those are two crops, if I am any judge of tobacco, that were worth say, a dollar or a dollar and a half of the top.

By Mr. Sommerville:

Q. Now then, what was the combined effect of the delay in the market, and the price at which they were buying good serviceable tobacco—12 cents. What was the effect upon the farmers that year of these combined conditions? Describe it to the committee in your own way, Mr. Gregory?—A. Well, the farmers felt very badly; they were not getting the cost of production, and I believe that they appealed to the Agricultural Department of Ontario, and at that time Colonel Kennedy, the Minister, announced the intention of providing financial assistance, and said that they did not have to sell their tobacco at those prices. The market went up, and I believe it was on account of making the threat of providing financial assistance.

Q. That is, the market went up following his announcement?—A. Yes.

Q. And his assurance to the farmers?—A. Yes, and the price went up, and the end was about like the beginning in price.

Q. Yes, I understand the price went up 25 per cent or further after that announcement was made?—A. Yes, sir. Mr. Lea, I remember, offered me 14 cents for a crop and I told the tenant no he must not take 14 cents, that I would give him 17 cents myself and he could take 17 cents, or I would have it packed and finance it and he could take half of what it brought less expenses, and he decided to take the 17 cents, and I sent it up to the Canadian Leaf Tobacco

Company to be processed; and as soon as it got there they offered 17 cents for it but I did not take that; I merchandised it, and I realized nearly 20 cents having regard to green weight tobacco at the farm.

Q. And that was a tobacco for which you had refused 14 cents from Mr. Lea?—A. Yes sir. The Canadian Leaf then offered me 17 cents, and they have to buy it and sell again, you know.

Mr. Sommerville: Yes. Thank you, Mr. Gregory.

By Mr. Young:

Q. It seems to me now, Mr. Gregory, that this system of buying tobacco, stating to the buyers you shall pay a top price of 30 cents and an average price of 24 cents, is bound to result in the very condition you have described, especially where you have buyers who are not absolutely sure of themselves; is not the buyer bound to make his average regardless of the quality of the tobacco?—A. We never had before that any set average to go by; we never had, prior to that time, any set average. We would start out with 30 cents, 35 or 40 cents, in the past as top price, and let the average fall where it may.

Q. You spoke of going out with Mr. Buell to look over a crop. Where was that crop when you looked it over, was it in the shed?—A. This particular crop had been stripped, it was in the bales.

Q. Can you see it in the bales?—A. Yes, sir. You can go over to the bales and take any bale and bring it to the light and go and get another one.

Q. Is it possible to buy tobacco that way, that is to say, to go to the farmer and say, Now, we will buy your tobacco on that basis, we will pay you 30 cents for your fancy, 20 cents—if that be the cost—for your good, 25 cents for your good medium, and 23 cents for your medium, and so on down the line? —A. No sir.

Q. And then grade it as you take it?—A. That would not work out.

Q. Why would it not work out?—A. Because this tobacco is all in bales, in a big bale, and in each bale there is a certain amount mixed.

Q. In each bale?—A. Yes sir. Well not necessarily in each bale, but to some extent, some in each bale.

Q. Could not the farmer be tempted to bale up his good tobacco in one bale?—A. The farmer does not grade tobacco in this country.

Q. There is no possibility then of grading this tobacco?—A. Not in the barn. It must be done largely by judgment and experience.

Q. What did you do before this averaging business started?—A. Just looked over each crop of tobacco and offered the farmer whatever we thought it was worth.

Q. And it did not matter so much about your average so long as you got your moneys worth in each case?—A. That is it, and the average would fall in the right place. You see, the average in the South—they average every day. I was a bookkeeper there once and we had to make an average every day and an average every week. But these people are accustomed to that in the South, but I never heard so much about average as I did in 1931.

Q. That is, when they instruct the buyers to buy at a certain average, but if you could get away from that you would eliminate a lot of trouble?—A. Well, I think it is quite wise to have some average in your head. If you have seen all the crops of tobacco it is quite wise to consider that before you start to buy. I think it is largely a question of experienced buying, looking the crops over and getting your moneys worth in each case.

By Mr. Factor:

Q. What do you think of the government grading crops and fixing the price for each grade, something like they do with hogs?—A. I believe in the school of individuality and not so much regimentation as that.

Q. Rugged individualism then.—A. It can be worked out undoubtedly, but this situation needs looking into.

Q. What do you think of this government grading of tobacco?—A. Commercial organization would be better than government grading. If you are going to adhere to the barn buying system you might try something like that, and I would not be surprised if ultimately the barn buying system will be discarded, but I will be willing to say it will be reasonable to try it for another year or two.

By Mr. Sommerville:

Q. If you departed from the barn buying system then what?—A. The auction system.

Q. If you departed from the barn buying system and adopted the auction system, and you graded your tobacco and packed it in hogsheads— —A. You do not pack it. You see, the packer is another man, he has another place.

Q. Well, it is brought in and put in the barn. If you had that system then your crop would be sold, your whole crop would be sold by auction.—A. You can sell a small portion at a time.

Q. At a time, yes.—A. And your whole crop eventually would be sold by auction.

Q. And your export buyer would be in the market obviously as your domestic buyer?—A. Yes, sir.

Q. To buy his exact grade?—A. Under that method anybody can walk in and buy, but under this present method you have eight or ten inspectors going round the country looking at the crops, but under the auction system it is an excellent thing. The humblest farmer can take in a load of tobacco and I can buy it from him, he can do that instead of having to wait, wait, wait until the buyer comes along to buy his whole crop. With the auction system he can sell a part of it.

Q. And they sell to the domestic buyer too?—A. Yes, sir.

Q. But you think the greatest advantage is in the fact that after the crop is then prepared for sale he has a world market, he can sell to anybody?—A. Yes, and to get away from the personal equation. In the South they have been following that channel of trade for years and years, and the export business has developed on that sytem.

Q. We have had some evidence about the Imperial Tobacco Company buying for the Imperial Tobacco Company of Great Britain some three and a half million pounds in the year 1932. Did the Imperial of Great Britain buy their Burley independently of any competition from the Imperial of Canada?—A. Yes, sir.

Q. And when you were buying for the Imperial of Canada were the Imperial of Great Britain really buying the Burley?—A. Yes, sir. Not at first. We bought the Burley for a few years but then they started to buy Burley. I would say it was very commendable on the part of the Imperial Tobacco Company of Canada to do what they did, but I think they should have stopped after that. I believe that the little competition that they have here should not be squelched.

Q. That is, you think that the Imeprial of Canada should not represent the Imperial of Great Britain in the buying?—A. No, not of the flue-cured.

Q. Of the flue-cured?—A. No, sir.

Q. You say that it ought to be bought independently just as they buy their Burley?—A. Yes, and as they buy in the South.

Q. As they buy in the South, in a competitive way?—A. Yes.

By Mr. Young:

Q. Would you say then that the Imperial of Canada should not sell any surplus they may have to the Imperial of Great Britain?—A. I think that would be all right occasionally when they had some tobacco bought honestly for their

own use with the expectation of using it, and as I say, I think it was commendable of them to do what they did in selling to the Imperial of Great Britain, but I do not think that practice should be continued. Gracious knows we have little enough competition without having these two large companies buying up the tobacco and then dividing it.

Q. You say it was commendable. Is it not a fact that that action was taken in order to get the benefit of the 49 per cent preference on Virginia Leaf, and that it was really an economic necessity that brought them in, that is, the Imperial of Great Britain?—A. Well, I think a company that have probably made enough money anyway, and are rolling in wealth, are slow to change; probably that economic necessity you speak of was a circumstance, but I do say that I think the practice should not be continued, and that the two of them should compete with each other.

By Mr. Young:

Q. How are you going to prohibit such a thing as that, especially if they have a surplus?—A. I do not think it is right that they should be permitted to do so. They are not allowed to do that in the States. I believe the Federal Trade Commission has issued an order saying that they cannot do that very thing, and they are competitors all the time in so far as I know.

By Mr. Heaps:

Q. You said you were in favour of the tobacco being sold by auction?—A. I said I believe if some way can be worked out, such as some schemes that are now under way, then I would say it would be the practical thing to do, to try this maybe another season or two.

By the Chairman:

Q. When you say that, you mean the present barn buying system?—A. Yes, and if we cannot make it work different then to discard it and adopt the auction sales similar to the manner and system they have of selling the tobacco in the Southern States. The system here is something entirely different from the practice anywhere else in connection with flue-cured tobacco. The trade has been built up and every channel of trade has developed along the auction line, which is entirely different from this.

By Mr. Heaps:

Q. If you sold tobacco by auction what would determine the price?—A. Competition.

Q. Supposing there was an overproduction of tobacco what would happen?—A. I think you would get more competition with the tobacco sold under the auction method, a method that the trade is accustomed to.

Q. Supposing there is overproduction how would that affect prices?—A. If there was a large crop of flue-cured tobacco why, of course, prices would be low.

Q. Supposing there was an overproduction of tobacco and the prices were lower again to the farmer would there be any improvement over what you have had in the past few years?—A. I would think so.

Q. How is it worked in the Southern States?—A. It is worked down there on the auction method.

Q. You told us something about the very low conditions of living in the South?—A. Well, down there with the negro labour, and a country that can build a tobacco kiln for $100—you can hire labour for 50 cents a day, and there are eight to twelve States down there that can grow tobacco.

Q. It has not taken those negroes out of the semi-slavery conditions at all?—A. At times they have done well.

Q. Who have done well, the negro labour?—A. Yes. In the war time and after that when tobacco was high. It was low for two or three years. Last year

I would say he did pretty good. Everybody was pretty well satisfied. No system is that perfect that it suits everybody. Everybody thinks they have a better one—barn buying or the auction system.

Q. How would you differentiate between the domestic and export trade?—A. Then?

Q. If you did it by auction?—A. They are doing it either way. I think last year the domestic buyers were in agreement—an average of 17 cents.

Q. Suppose there is no agreement?—A. Oh, you could not differentiate then at all.

Mr. BELL: The bad conditions are not entirely due to tobacco; cotton and other things enter into the matter, don't they? They enter into the demoralization of conditions?

The WITNESS: Yes.

By Mr. Heaps:

Q. Suppose there is no fixed agreement or fixed price for tobacco, how can you differentiate between the domestic and export trade?—A. You cannot.

Q. Then, the auction system would not be successful in that case?—A. In the auction system there are anywhere from five to ten buyers and this tobacco is sold at auction, export or domestic.

By Mr. Factor:

Q. Where would you get your five or ten buyers on the Canadian market? —A. The Imperial Tobacco Company—

Q. Buys most of it?—A. I think the Macdonald Tobacco Company would have—I do not know what they would do, but I would say that they would probably have a representative buyer, probably the Imperial of Great Britain and Ireland; then there would be independants to buy for small concerns, take orders from Godfrey Phillips and Carrera and different ones in England and smaller concerns in Canada.

Mr. SENN: This matter of premiums seems to be one of the most serious phases of the situation. Why is it that when we have such a small surplus and when we have a premium of 49 cents a pound in the markets of Great Britain that our surplus is not readily absorbed in the export trade?

The WITNESS: Well, this is called Empire tobacco. When they started to grow flue-cured around Danville, Virginia, and South Boston that was considered a type of tobacco—Virginia tobacco, and when North Carolina started to grow tobacco two or three hundred miles away the manufacturers shook their heads and said that that was not as good as the old tobacco and didn't know whether they could use it or not. So North Carolina took to producing by far the greater part—I guess five times as much as Virginia. It went to South Carolina. That was worse. They could not see South Carolina. Well, that was taken in and now it has gone to Georgia and Florida. From Danville, Virginia, to Florida, the number of miles I believe—I think it is a farther distance than from Danville to Delhi. In other words, if the Niagara River ran west of Tillsonburg this would be considered Virginia tobacco from the States and would be taken the same as—

By Mr. Senn:

Q. It is only a matter of reputation?—A. Largely, I think. I do not say this tobacco is just the same, but I believe it compares favourably with the southern tobacco, and I believe by putting this tobacco in a cheaper product called Empire Product you cheapen it. Against that you put it in something different and advertise it as it is

Q. How does the quality of flue-cured compare with the tobacco that is exported to Great Britain from the United States?—A. I think the better part of this tobacco here—I take this as a whole—compares very favourably with the tobacco down there as a whole.

Q. Don't you think that some method of publicity, or something of that nature, could be arranged to place our tobacco on a better footing on the British market?—A. That would be very ideal, I would say. I remember the times in Canada thirty years ago. I believe the excise law was that Canadian tobacco must have one colour stamp on it, imported tobacco manufactured another colour and a blend a third colour. The result was they looked in the showcase and they saw this tobacco that was stamped as Canadian tobacco and everybody wanted the imported article, and that held the price of it down. We never got a very fair show for Canadian tobacco until that law was changed —until you could put any kind of tobacco in the mixture and let it sell on its merits. I believe we have that to contend with in England to-day. The Empire tobacco—South African and Canadian and so forth goes on a different line of business.

By Mr. Heaps:

Q. You still continued competitive buying of the tobacco?—A. Yes.

Q. Do you know what percentage of Canadian tobacco is purchased by the Imperial Tobacco company?—A. I think right now, not 50 per cent.

Mr. SOMMERVILLE: 56 per cent last year.

By Mr. Heaps:

Q. It was higher in previous years, somewhat higher?—A. Yes, as the crop was smaller. As the crop goes larger more of it has to find its way out of the country.

Q. Would you be in favour of a fixed price to the producer?—A. Well, under this system of sale I think it hampers export business, but having regard to the fact we have gone on increasing and increasing, and looking at it right now I would say yes, that some agreement as to what he was going to get the next year would be better.

Q. If you favour a fixed price to the producer you cannot very well have the competitive system in buying?—A. A fixed minimum price, would you say? How would that be?

Q. No. I say a fixed price on grades.

Mr. SOMMERVILLE: A fixed average is what they are working on at the present time. Perhaps you might mean a fixed average price.

Mr. HEAPS: Apparently, if they have a fixed price on grades it is the same thing as if they have a fixed price on the tobacco, average or otherwise; you cannot have the competitive system in buying, can you?

The WITNESS: Well, I talked to some of them about that and they believe that that can be worked out. It would require some thought, and a great many angles arise which would have to be thought over and worked out.

By Mr. Sommerville:

Q. That is to say you would continue your buying but you would fix your top price at such a figure as would arrive at an average for the whole crop? —A. Yes.

Q. You think some basis can be worked out—that an average purchase can be made upon that basis?—A. I would think so.

Q. Thank you Mr. Gregory. Now, Mr. Miller wants to produce some wage scales for us.

Mr. Gray Miller recalled.

By Mr. Sommerville:

Q. Mr. Miller, you have some statement?—A. Some various statements.

Q. Would you be good enough to let us have them?—A. On the wage scale, I might say we have been working in that, Mr. Sommerville, but we have not got them all completed, sir. We have some other statements.

Q. You have not got the wage scales all completed?—A. No, sir, it is quite a big undertaking.

Q. Have you them for the Imperial factories—your own factories?—A. No, I have not got it completed at all.

By Mr. Factor:

Q. You are not producing to-day—A. No. We are working on them and we will produce them.

Mr. Sommerville: Are you likely to have them to-morrow?

The Witness: They are working as fast as they can.

By Mr. Factor:

Q. May I ask what system you are following in preparing these statements of wages? Are you grading the different workers like strippers and packers?—A. As I recall it, you asked for all of the piece work rates that we are giving, and we are trying to give every piece work and every wage scale, and where there is any change. It is a terribly big undertaking, and in order to do it we ought to give some idea of what earning there could be under that wage scale.

Q. How far back are you going to go?—A. Three years, I think.

Q. You mean for the last three years?—A. Yes, any changes that were made. That is the way we understood the question.

Q. Yes, quite so.

By Mr. Sommerville:

Q. Now, there are some other statements you were preparing?—A. Yes. There is a statement you asked for of all the changes in important brands of cigarettes and tobacco.

(Statement filed market exhibit 141.)

You will see quite a few changes downward in both the tobaccos and the cigarettes.

Mr. Factor: Is that exclusive of the excise tax?

The Witness: It is included in there, but in addition to that the additional changes—other changes in addition to that.

By Mr. Sommerville:

Q. This does not give the selling price to the consumer?—A. Yes, sir, in the last column. "Retailers" That shows retailers' price, Old Chum, Fine Cut, on the second page.

Q. Take the cigarettes here: Turret, $12.50. What does that mean?—A. That means twelve and a half a thousand, which means twelve and a half for ten or twenty for twenty-five cents.

By Mr. Factor:

Q. That is what the retailer sells it to the consumer at?—A. Yes. It was only changed to the consumer on a $10 basis by reason of the excise, but, as explained, we could not make any small changes of half a cent a package or anything like that, that cannot be passed on. You see "Sweet Caporal" from 1929, 18 cents for ten down to ten.

By Mr. Sommerville:

Q. Sweet Caporal was a cigarette that was lying dormant for a number of years?—A. Yes, quite true.

Q. And now has been brought to life on a $10 basis—on the same basis as Turrets?—A. Quite.

Q. Is not that the situation?—A. Yes, to a large extent.

Q. It is hardly comparable. You would not put it forward as an average reduction?—A. No, sir, the only way to get an average is as we put in our brief, sir. I tried to make that point clear the other day.

Q. Perhaps I should say it was not a representative reduction. With regard to Sweet Caporal there was a situation there that differs from all the others?—A. No. I think it varies perhaps. Take Millbank—

By Mr. Factor:

Q. Is there a popular brand in that list for which the price has been reduced to the consumer irrespective of the excise tax?—A. It depends on what you would call a popular brand, Mr. Factor. Take Millbank, for example, that has been a big brand—a relatively fast seller. It is hard to tell what you would call a popular brand; but this statement, frankly, as we give it, is a fair indication of what the manufacturer did, and it is hard to get at what the average reduction to the consumer was, but there was an average reduction to the consumer. Then, in addition to that, the higher priced brands decreased in sales and the lower priced increased in sales, and the consumer paid less. If we had a big brand, say, selling at fifty million a month and selling 20 for 25 cents and we put out other brands at 20 for 20 cents it is equivalent to a reduction.

By Mr. Senn:

Q. What about your bulk tobaccos; is there any reduction in the price of those in packages?—A. Oh, yes, on the next page; there was considerable.

By Mr. Sommerville:

Q. Will you deal with the cigarettes first of all. You have "Gold Flake" which sold at $12.50 in 1932?—A. Just a minute, sir. Yes, but you go back on that. It sold in 1929 at $30, 1930, at $17.50, and we have made a reduction just prior to the reduction in excise from $17.50 to $12.50, hoping there would be some reduction in excise. We have been trying to get the government to reduce the excise for many years.

Q. But your reduction from $17.50 to $12.50 took place in April 1932?—A. That is right.

Q. That was some six months before the change in excise?—A. Yes.

Q. And that was with a view, was it not, to increasing your sales on Gold Flakes?—A. Yes, quite.

Q. And when the change took place in the excise and $2 was taken off the excise tax on 1,000 cigarettes Gold Flakes continue at $12.50; no change took place?—A. And decreased in sales tremendously too.

Q. Well, I want to deal with each concern?—A. That was the result.

Q. That is to say Gold Flake was at $12.50 for six months prior to the change, and since the excise was reduced there has been no change?—A. Yes.

Q. Take Guinea Gold at $12.50 for several years prior to April 19— —A. November 1932.

Q. And in November 1932 it was reduced to $10?—A. That is right.

Q. Per thousand?—A. Yes.

Q. That is to say, a reduction of $2.50, and the reduction in the excise was?—A. Two dollars.

Q. And that meant a 5 per cent reduction approximately?—A. A what?

Q. A 5 per cent reduction apart from the $2 of the excise tax?—A. I cannot understand your figures.

Q. The excise reduction was $2?—A. Yes.

Q. And 50 cents on $10 represents 5 per cent, does it not?—A. Oh, well, on $10. I do not know how you figure that.

Q. $10 a thousand?—A. I do not know what you are driving at at all, sir.

Q. At any rate, you added to the reduction of $2 for excise tax a 50 cent reduction?—A. Yes. We reduced $2.50. The excise tax was reduced $2. Any way we reduced more than that, but the consumer got that.

Q. The consumer got that. I think that meant that if you had not reduced to $10 the consumer would have to pay 21 cents. If you just reduced it by the amount of the excise tax the consumer would have paid 21 cents instead of 20 cents for his package?—A. Yes, I suppose. I do not know how you are figuring that.

Q. I beg your pardon?—A. I do not quite understand your point about that.

Q. Well, that is the amount of the reduction?—A. If we had reduced it only $2 under the price, yes?

Q. It would have been 21 cents?—A. Yes. There was no intention—

The CHAIRMAN: The point is that there is a reduction in addition to the excise tax reduction?

The WITNESS: Oh, yes, quite.

By Mr. Sommerville:

Q. Of 50 cents a thousand?—A. Yes.

Q. And the same thing applies in Millbanks. From $12.50——A. Previously it was $14.

Q. And reduced to $12.50?—A. Yes, in November, and in June of last year it was reduced to $10.

Q. And Player's were reduced from $16.67 to $13.88?—A. Yes.

Q. All those are eighteens?—A. I think there was some odd quantity. I think eighteens for a quarter. That figures out to $13.88.

Q. This reduction in Player's was a reduction of $2?—A. And 79 cents.

Q. $2.79. In each of these cases, Mr. Miller, showing these reductions was the same quality of cigarette carried through into the new?—A. Well, these figures indicate per thousand, and that would correct it. There are some changes.

The CHAIRMAN: Everything was the same throughout?

The WITNESS: Well, on that statement it shows where we changed the size. Take Player's. We were selling fifteen for 25 cents and we changed them eighteen for 25 cents, which gave a reduction of $2.78 to the consumer.

The CHAIRMAN: But you increased the number in the smaller size?

The WITNESS: Yes.

Mr. YOUNG: Was the size of the cigarette reduced?

The WITNESS: No, sir; the same cigarette.

By Mr. Sommerville:

Q. Player's remained the same price but you added three more cigarettes?—A. The same price per package.

Q. You added three more cigarettes?—A. Yes. It is all adjusted in the retail price.

Q. Is that the system that has been followed generally? You increase the number of cigarettes in the package?—A. Not always, no; where it was a unit that could be changed, as, for instance, twenties. Where it was twenty for 25 cents we could make the reduction twenty for 20 cents, and there was no change in the number of cigarettes, but the change in price per package—but it could not be worked out with a fifteen package or odd packages.

Q. Were Rex cigarettes treated the same as Player's?—A. Yes, sir.

Q. And the reduction was from $13.88 to $11.11?—A. Yes.

Q. And that sells at what price?—A. It is a very small brand. I will have to look that up. Eighteen sold for 20 cents. They must have been previously selling for a quarter; yes, they were selling previously 18 for a quarter.

Q. Then, Turrets were reduced from $12.50 to $10?—A. Yes. Sweet Caporal—

Q. We have had the Sweet Caporal changed. Then Turrets was changed from $12.50 to $10?—A. Yes.

Q. And Viceroy from $12.50 to $10?—A. Yes.

Q. And Winchester was changed from $12.50 to $10?—A. Yes.

Q. These last three brands were 20's?—A. Yes.

By the Chairman:

Q. In each case 50 cents is the excise reduction?—A. Yes, to the consumer.

Q. So the difference to the manufacturer in reduction was even a little more than $2, including the difference in sales tax to the retailer, and the jobber was given a little better margin.

Mr. FACTOR: The consumer paid 50 cents less per thousand for cigarettes in the form of getting, in certain cases, extra cigarettes in the package, and in other cases, a reduction in the price.

The WITNESS: Over and above the excise reduction.

By Mr. Sommerville:

Q. Now, let us take the ten leading price changes in your ten leading cut tobaccos?—A. Yes.

Q. Dominion?—A. That is a new brand, comparatively.

Q. A new brand in 1932 which sold at $1.40?—A. All Canadian tobacco.

Q. It is still $1.40?—A. Yes.

Q. Then Ogden's 12's were $1.80?—A. Yes.

Q. In June, 1931; that was changed to 16's at $1.60?—A. Yes.

Q. I think we should have the reporter copy this in the record.

HISTORY OF PRICE CHANGES ON TEN LEADING CIGARETTE BRANDS

Brand	Size	Date	Net Selling Prices per M.		
			Mfrs.	Jobbers	Retailers
			$	$	$
Dixie	20s	1930	9·7500	10 80	12 50
"	20s	April 1932	9·9450	10 96	12 50
"	20s	Nov. 1932	7,8132	8 68	10 00
Gold Flake	10s	1929	22·5000	25 00	30 00
"	20s	Sept. 1930	13·4400	14 94	17 50
"	20s	April 1932	13·7088	15 21	17 50
"	20s	" 1932	9·9450	10 96	12 50
"	20s	Nov. 1932	9·5064	10 56	12 50
Guinea Gold	20s	1929	9·7500	10 80	12 50
"	20s	April 1932	9·9450	10 96	12 50
"	20s	Nov. 1932	7·8132	8 68	10 00
Millbank	25s	1929	10·7600	11 96	14 00
"	25s	April 1932	10-9752	12 14	14 00
"	20s	Nov. 1932	9·5064	10 56	12 50
"	25s	June 1933	7·8132	8 68	10 00
Player's	15s	1929	12·7600	14 18	16 67
"	15s	April 1932	13·0152	14 38	16 67
"	18s	Nov. 1932	10·8018	12 00	13 88
Rex	18s	1929	10·6500	11 83	13 88
"	18s	April 1932	10·8630	12 00	13 88
"	18s	Nov. 1932	8·8026	9 78	11 11
Sweet Caporal	10s	1929	13·4100	14 90	18 00
"	10s	Aug. 1930	11·2800	12 54	15 00
"	10s	April 1932	11·5056	12 71	15 00
"	10s	Nov. 1932	7·8132	8 68	10 00
Turret	20s	1929	9·7500	10 80	12 50
"	20s	April 1932	9·9450	10 96	12 50
"	20s	Nov. 1932	7,8132	8 68	10 00
Viceroy	20s	1929	9·7500	10 80	12 50
"	20s	April 1932	9·9450	10 96	12 50
"	20s	Nov. 1932	7·8132	8 68	10 00

HISTORY OF PRICE CHANGES ON TEN LEADING TOBACCO BRANDS

Brand	Size	Date	Net Selling Prices per lb.		
			Mfrs.	Jobbers	Retailers
			$	$ cts.	$ cts.
Dominion C.C. and F.C	14s	1932	0·9792	1 08	1 40
" "	14s	July 1933	1·0302	1 14	1 40
Ogden's F.C. and C.P	12s	1929	1·2300	1 38	1 80
" "	16s	June 1931	1·1700	1 30	1 60
" "	16s	April 1932	1·1934	1 32	1 60
Old Chum C.C. and F.C	13s	1929	1·4700	1 63	1 95
" "	13s	April 1932	1·4994	1 66	1 95
" "	18s	July 1933	1·3974	1 54	1 80
Old Virginia C.P.	6s	1929	1·1300	1 25	1 50
" "	6s	April 1932	1,1526	1 27	1 50
" "	7s	Feb. 1934	1·0506	1 17	1 40
Picobac	10s	1929	1,1300	1 25	1 50
"	10s	April 1932	1·1526	1 27	1 50
"	13s	Aug. 1933	0·9894	1 10	1 30
Rex Mixture	13s	1929	1·4700	1 63	1 95
"	13s	April 1932	1,4994	1 ·66	1 95
"	16s	Jan. 1934	1·1934	1 32	1 60
Rosebud Cut	8s	1929	0·9200	1 02	1 20
"	8s	April 1932	0·9384	1 04	1 20
Sweet Caporal F.C	15s	1929	2·2800	2 53	3 00
" "	16s	Jan. 1932	1·8200	2 03	2 40
" "	16s	April 1932	1·8564	2 05	2 40
" "	15s	Sept. 1933	1·1220	1 24	1 50
Turret F.C	12s	1929	1·2300	1 38	1 80
"	8s	1930	1·17	1 30	1 60
"	16s	April 1932	1·1934	1 32	1 60
"	15s	Sept. 1933	1·1220	1 24	1 50
Wills' Cigarette Tobacco	13s	1932	1·3260	1 47	1 95
" "	18s	Aug. 1933	1 3464	1 50	1 80

Then, 16's on April, 1932, were changed to $1.60?—A. The same price, but the sales tax changed there, sir.

Q. There is no change in Ogden's by reason of the excise tax change?—A. No, no excise tax change—

Q. On tobacco?—A. On tobaccos.

By Mr. Factor:

Q. What is the excise tax on tobacco?—A. Twenty cents a pound.

Q. On all brands?—A. Yes, all types.

By Mr. Senn:

Q. Cigarette, as well as pipe?—A. Yes.

The CHAIRMAN: That is, roll-your-own stuff?

The WITNESS: Yes.

By Mr. Sommerville:

Q. Then, Old Chum was reduced in April, 1932, or in April, 1932, it sold at $1.95 a pound and in July, 1933, it was reduced to $1.80 a pound?—A. Yes.

Q. Old Virginia, C.P., cut plug?—A. Yes.

Q. Was sold up to April, 1932, at $1.50?—A. Yes.

Q. In February, 1934, it was reduced to $1.40?—A. Yes.

Q. Picobac sold up to April, 1932, at $1.50, and in August, 1933, it was changed to $1.30?—A. Yes.

Mr. FACTOR: Per pound?

The WITNESS: Per pound to the consumer. That is an All-Canadian tobacco, too.

By Mr. Sommerville:

Q. That change was made by putting in three ounces more tobacco or some more tobacco?—A. No, putting in less tobacco in the individual unit, but selling it also at a lower price. It was ten to the pound at 15, and we sold it 15 to the pound at 10 cents, which makes the net price to the consumer $1.30 as against $1.50 previously.

Q. The Rex mixture was reduced. Up to January, 1934, it sold at $1.95? —A. Yes.

Q. It has been reduced to $1.60?—A. Yes.

Q. Rosebud Cut up to April, 1932— —A. No change in that.

Q. It sold at $1.20?—A. Yes.

Q. Sweet Caporal Fine cut up to September, 1932, sold at $2.40?—A. Wait a minute—

Q. For the previous two years?—A. Previously it had been $3.

Q. In January, 1932, it came down to $2.40?—A. And stayed at that until September, 1933.

Q. When it was reduced to $1.50?—A. Yes.

Q. Turret Fine Cut was $1.80 in 1929?—A. Yes.

Q. And was reduced to $1.60 in 1932?—A. Yes.

Q. In September, 1933, it was reduced to $1.50?—A. That is right.

Q. Wills' Cigarette tobacco up to August, 1933, sold at $1.95?—A. Yes.

Q. And it has been reduced to $1.80?—A. Yes.

Q. Are these the ten leading tobacco brands of the Imperial Tobacco Company?—A. Yes.

Q. Are these the ten leading cigarette brands?—A. Yes.

By Mr. Ilsley:

Q. So that a fair summarization of your cigarette reduction to the consumer, irrespective of the excise tax, would be 5 per cent between 1930 and 1933?—A. Are you figuring on the new price? You are referring to that 50 cents on $10.

Q. I am figuring on the percentage, 5 per cent?—A. Over and above the excise tax reduction?

Q. Yes?—A. Yes, I think so.

Q. The difference in the price you paid the consumer was between 31·9 cents in 1930 and 19·8 in 1933, which was a reduction of 40 per cent?—A. Well, I cannot think that that is hardly a fair comparison, I would say, Mr. Ilsley.

Q. Perhaps it is not?—A. You have the excise tax in the case of the consumer, and you have the profit to the trade.

Q. I have not got the excise tax in it. If there is anything unfair in that comparison, I want it pointed out. You got a larger reduction— —A. I mean, making a comparison of the reduction of 5 per cent in the price to the consumer —any reduction that was made in the price of the tobacco is a long way from a fair comparison, it seems to me.

Q. So far as cigarettes are concerned, it is a case of a 5 per cent reduction to the consumer, not taking into account the excise tax, and there was a reduction in that period—I am talking of 1930 and 1933, because that is a more favourable comparison to you than 1930 and 1932, because there was nearly a 50 per cent reduction in the price paid the consumer in 1930 and 1932, and I figure that is somewhere near 20 per cent?—A. In the first place, as you realize, there is a much larger percentage of imported tobacco used in cigarettes than there is in any other types of tobacco, and in addition to that,—I am not trying to be ridiculous—there may have been an increase in something that cost us, we will say, a cent a thousand, and there might have been a decrease of 50 per cent, which would have been half a cent a thousand in cigarettes. Do you see what I am getting at? I do not think it is any comparison, Mr. Ilsley, at least that is the way it appeals to me.

By Mr. Factor:

Q. The price you pay for imported tobacco was changed, too?—A. Probably, but you see the point I am trying to make. You are trying to pick out one unit that goes into the cost and figure up the percentage, and the change in the price of that, and then try to compare that with the change in price to the consumer. I do not think that is fair. I mean, one is very far removed from the other, as it appeals to me.

By Mr. Ilsley:

Q. You say the raw material is only a small part of the cost?—A. A comparatively small part.

Q. It looks to me like a big discrepancy. You reduced what you paid the producer in that period by 40 per cent, and the consumer only gets the benefit of a 5 per cent reduction in that same period?—A. We may have reduced the price, as the price of a lot of things have come down in the previous years.

By Mr. Sommerville:

Q. I have no doubt other elements that enter into the manufacturing end came down?—A. It only made a very small proportion of the whole cost of the consumer's dollar.

By Mr. Ilsley:

Q. You cannot tell us to-day how much your wages or your labour costs came down?—A. Very, very little, sir, per thousand cigarettes, if any, and only because of probably changes in machinery and efficiency production. There was no fundamental change in our labour at all, sir.

Q. The cost of your imported tobacco came down in the same proportion, I suppose, as the domestic, or perhaps more?—A. No. We were not taking advantage of it. I do not think so. Our average price was better, but there was no material reduction or no very big reduction in the imported tobaccos.

By Mr. Sommerville:

Q. There is a drop in the price of the imported tobacco?—A. It does not mean a drop in our price of imported at all.

Q. In 1929 the price of imported tobacco was 16·5?—A. We do not buy every year. As a matter of fact, we have been buying very little in the last year.

By Mr. Senn:

Q. You have a stationary figure per unit?—A. Naturally we buy other tobaccos, a lot of tobaccos at cheap prices, but we have not been in the American market in the last few years, because we have been trying to buy Canadian tobacco. We have had and used Canadian tobaccos. We have not bought any other to any extent, and the cost of imported tobaccos has changed very little.

By Mr. Ilsley:

Q. Is there any way you can give us your percentage? Is there any way you can give us a percentage figure covering cut tobaccos, comparable to the 5 per cent reduction in the price of cigarettes to the consumer?

Mr. Lane: A per pound basis instead of percentage because the selling price to the consumer is out of relation to the cost of leaf tobacco. The selling price to the consumer does not bear the same relation as the reduction in price of leaf tobacco to the producer, and again on to the consumer. There are fixed charges in the price to the consumer, such as duties, and all of our other expenses, and costs of operation, which do not fluctuate in the same ratio as the reduction in the price of leaf tobacco.

By Mr. Ilsley:

Q. You can arrive at a percentage?—A. Take the excise, $4 on cigarettes, and roughly 3 pounds to the thousand. That is $1.33 a pound. On tobacco the excise tax is 20 cents a pound, the excise tax on manufactured tobacco. You see what I mean.

Q. I do not. I can just follow one idea at a time. We have a figure now of 5 per cent reduction in the price of cigarettes to the consumer apart from the reduction he got due to the excise tax reduction. We have that?—A. Yes.

Q. Now, then, you sold cut tobacco which went to the consumer; and if I could get a figure comparable to that 5 per cent, I think it would be higher than that, from following the figures given by Mr. Sommerville. Instead of 5 per cent I fancy it would be more like 10 per cent or 15 per cent. Can you give us that to show how much benefit the consumer got, what percentage of benefit, not per pound, he got between 1930 and 1933 on his purchases of cut tobacco?—A. We tried to work that out. We have only got a figure on our own tobacco. You would have to take into account, as near as I can understand your question, you would have to take into account the sales of all brands of tobaccos, find out what the retail price was, and compute it for the whole country in each year and then work it down.

By Mr. Sommerville:

Q. No; we are only dealing with your company, the Imperial Tobacco company.—A. Yes.

By Mr. Young:

Q. Take the brands that you have mentioned, Dominion, Ogden's, Old Chum, Old Virginia, Picobac, Rex, and so on. Suppose on one pound of each, the reduction would be from $14 for ten to $12. That would be a reduction of 15 per cent?—A. Which brand?

Q. Dominion, Ogden's, Old Chum, Old Virginia, Picobac, Rex, and so on?—A. Take one?

Q. Suppose you took one pound of each and totalled up the price of a pound of each, both before and since the reduction. Now, the reduction would be, according to your figures, from $14 for ten, to $12 for ten, or approximately 15 per cent?—A. Don't you think you would have to take into account the quantity that was sold?

Q. Yes, you would.—A. Illustrated by Sweet Caporal?

Q. Assume you sold the same quantity of each?—A. We do not do that, of course. They are very very varying quantities from year to year, and month to month.

Q. Your biggest reduction was in Sweet Caporal, and that is a heavy seller?—A. It has now got to be a fairly heavy seller.

By Mr. Ilsley:

Q. What is your heaviest seller?—A. Turret fine cut.

Q. What is the percentage reduction in that?—A. From $1.80 to $1.50 that would be—

Q. $1.60 to $1.50?—A. What period?

Q. I took 1930 and 1933.—A. Ten cents.

Q. You did not make a large reduction there in your heavy seller?—A. Ten cents a pound is considerable. Take 10 cents a pound. It seems to me that is a pretty big reduction.

Q. As Mr. Young says, it is 7½ per cent on your cigarettes, and on your heavy selling cut tobacco you did not make much of a reduction to the consumer although you made a reduction to the producer of 40 per cent; that is the point I am getting at.—A. Do you not think that the statement on page 45 of our brief indicates the ratio in the price to the consumer? Take the tobacco prices for 1931. There was a reduction of $1.01 and 94 cents.

Mr. SOMMERVILLE: On what page?

The WITNESS: Pages 45 and 46.

By Mr. Ilsley:

Q. The only trouble about that statement, Mr. Miller, is that it does not give the price to the consumer; it gives the price you got, selling in many cases to your own subsidiaries?—A. Well, that is true, but it has a definite relation to the price to the consumer. So far as selling to our own distributors is concerned, the amount of business handled by our own distributors is so small I do not think it would affect the situation at all. I mean, to the jobbing outfits generally. They handle less than 4 per cent, or about 4 per cent of the whole business of the country and ourselves to our retailer outfits around 5 per cent.

By Mr. Factor:

Q. The fact remains that on a popular brand of cigarettes there was a reduction of 5 per cent, and on the best selling tobacco, Turret, there was a reduction of 7½?—A. I do not think that is a fair picture of the situation at all, Mr. Factor

Q. Why?—A. Because, as I have said, you are trying to pick out one factor, tobacco, and figure the percentage on that, and compare it with the percentage of reduction that is given to the consumer, but on an entirely different and higher scale. If you want to talk about the price per pound, or the price per thousand, the price per pound is the only way you can make a fair comparison.

Q. The price per pound was 10 cents?—A. On what?

Q. The best seller, Turrets,—from $1.60 to $1.50.—A. What was the reduction to the producer, 10 cents a pound?

Q. Yes.—A. Ten cents a pound; on your basis, that is passed on.

By Mr. Sommerville:

Q. The drop to the producer was from 31 cents to 16 cents in 1932, when you made your reduction?—A. In 1932 we made our reduction, didn't we? The price we paid for the 1933 crop was 20 cents, approximately; so that is a difference of 10 cents.

By Mr. Young:

Q. But, Mr. Miller, we had a witness here the other day who cut his price 33⅓ per cent on fine-cut tobacco?—A. I do not know what brand it was. Nobody could—

Q. "One half more tobacco for the same price" I think he said was the slogan?—A. I understand it right, he was not talking about some brand, if it was it was just about like if you would compare the sweet caporal cigarettes reduction, which was a very similar brand, at that time. There was no big reduction in any big brand, but if you take—you could just say in the same way, sweet caporals were reduced from 18 cents to 10 cents; you could figure an 80 per cent reduction on that basis. I do not like to criticize, but as I understand it—I would be glad to be corrected if I am wrong—I suppose I am at liberty to say, zig-zag cigarette tobacco, I do not think there was a big reduction in it—not in my recollection that is.

By Mr. Senn:

Q. Might it not be, Mr. Miller, that the price was fairly high at the beginning?—A. Yes, probably it was.

Q. And the reduction only brought it down to a parity with other prices?—A. As I remember it is something he bought cheap—tobacco—and he put out cheap tobacco. But I do not like to be discussing anybody else. That is the way I read it and understand it.

Mr. ILSLEY: He had so many things to talk about when he was giving his evidence.

The WITNESS: We will try to work out something, Mr. Ilsley. I do not know what Mr. Lane has been able to work out.

Mr. ILSLEY: I do not insist that it is altogether necessary for my purposes. Is there nothing in the evidence to show what are the factors entering into the cost of your product to the consumer; that is, how much is labour, how much is raw material, how much is overhead, how much is taxes, and so on—is that represented?

The WITNESS: As a total, yes, sir.

By Mr. Sommerville:

Q. Is it broken down?—A. In the statement that we have filed, Mr. Sommerville.

By Mr. Factor:

Q. Have you taken the price of cigarettes and broken it down into these different elements?—A. It is, on the total business, in the statement.

By Mr. Ilsley:

Q. There is abroad the feeling that when you reduce the price to the producer 40 per cent, the consumer ought to get a proportion of the benefit; have you anything to say about that, to indicate that he has?—A. We maintain he has, from these figures, Mr. Ilsley.

By Mr. Sommerville:

Q. Well, if you will just work that out if you can, on the percentage, and when we return after adjournment?—A. Might I have a few minutes? Would you bear with me for a few minutes?

Q. Yes, Mr. Miller, what is it?—A. I hate to mention personalities and get into personalities, but I feel that in order to clear some misunderstandings that Mr. Gregory has made, I would like to briefly say that Mr. Gregory was for a long time manager of this department up in Ontario, and irrespective of whether we didn't seem to have been able to convince you gentlemen, but Mr. Lea's coming had nothing to do with Mr. Gregory's going; it wasn't arranged for, or had anything to do with it. Mr. Lea, as I stated, came up with the idea of being assistant to Mr. Buell; and for a long time Mr. Gregory had been dealing in fertilizer, selling fertilizers to the farmers, and had farms—he had eight or ten farms, some such number—which was rather embarrassing; and we tried to get Mr. Gregory, to get over to him that he had to get out of either the Imperial Tobacco Company, or he had to get out of selling fertilizer to these same farmers that he was buying tobacco from, and selling the tobacco to us; an unfortunate situation, and we were not going to stand it. And we told Mr. Gregory that he had to do one or the other, and as he—we knew he was making money out of the fertilizer business. We offered Mr. Gregory a very substantial increase in salary to compensate him for giving up his fertilizer business, and he said he would not go into that any more, and he gave us his word that he would not do it. And as to the farms he would gradually get rid of the farms—we could not expect him to dump them on the market—next year we found out, and Mr. Gregory admitted, that he had not given up his fertilizer business, although he was taking an increased salary from us; and his resignation was asked for. I am sorry to deal with personalities. I was trying to keep out of that.

Q. He had been in the fertilizer business for twenty years, had he not?—A. Yes. And it was unfortunate—partly our fault, perhaps because we allowed him to make the mistake; but that was no reason why it should not be corrected.

Q. And he had been in the fertilizer business with your knowledge over 20 years?—A. Yes, absolutely and unfortunately.

Q. And he built up your business through the aid of the fertilizer business?—A. I did not tell you that, not at all.

Q. He did develop it with the farmers?—A. He seems to have taken full credit of developing it, and we were perfectly willing to give him his share of the credit; but we do not think that he had any right to the full credit.

Q. Well then, this system which had been in existence over 20 years with your knowledge, and the knowledge of your officials, apparently did not become objectionable until after the Lea business of 1931?—A. That is a misconstruction, sir. I do not think—you are jumping to a conclusion that is not fair.

Q. Mr. Miller, is this not a fact: that the first time any suggestion was made from the Imperial offices in Montreal that Mr. Gregory should not be

engaged in the fertilizer business; was not that made after Lea came into the campaign in 1931?—A. I could not answer that definitely, sir, as to when we had him up. It probably was some where around that time. I would not say; but as to its having anything to do with Lea's going up there, it had nothing to do with that, sir—nothing to do with it.

Q. I quite believe you?—A. All right, sir, thank you.

Q. But you had no idea of Mr. Gregory giving up the fertilizer business?—A. Had no idea—he gave his word he would.

Q. Wait a minute now. With Lea coming to Canada, it was after the disastrous buying campaign of 1931, I suggest to you, that was the first time that it was ever suggested to Mr. Gregory that he give up the fertilizer business?—A. I do not think—

Q. Ask Mr. Buell, he is the man that suggested it? Now, was not that the fact, that there never was a complaint of any kind from the Imperial to Mr. Gregory about his connection with the fertilizer business until—?—A. There were complaints from outside about it.

Q. But, was there any complaint from the Imperial headquarters at Montreal; was he ever asked to give up the fertilizer business until after Mr. Lea's entry?—A. As to when he was asked to definitely give it up, it probably was; but it had no bearing on the other situation.

Q. You agree then that it was after Lea's arrival in Canada, and after the buying campaign of 1931?—A I cannot recall the date, sir.

Q. Mr. Lea came in 1931?—A. The point I am making is that it had nothing—Mr. Lea's coming up here had nothing to do with the whole thing; and as I have said to Mr. Gregory myself, if he didn't—if he got out of that fertilizer business he would have been with us to-day, so far as I know or believe.

By Mr. Senn:

Q. Just one question: Do you think that your relations between your buyers and the growers are as good, and in as good a condition to-day, as they were when Mr. Gregory was there?—A. That may be worthy of investigation. We certainly thought so until all that has been stirred up. We certainly had believed it was better.

Q. I am afraid—?—A. Perhaps not, sir.

By the Acting Chairman:

Q. There is just one matter before we adjourn: referring to your immediate past evidence, about the position that Mr. Gregory occupies; to sum it all up, your contention is that you came to the conclusion—whether rightly or wrongly—that his dual capacity as a seller of fertilizer and as a buyer of tobacco—?—A. Quite, sir.

Q. Were inconsistent; that was your view?—A. Yes, sir.

Q. And to put it into a phrase, you came to the conclusion that he could not serve both God and Mammon?—A. Exactly. And raising tobacco on his eight farms.

By Mr. Sommerville:

Q. But he had done that for twenty years with the knowledge and approval of your company?—A. We did discuss it with Mr. Gregory, about discontinuing the fertilizer, before Mr. Lea came up here.

Q. You will present yourself at 3.30 again?—A. Yes, sir.

The Committee adjourned at on o'clock to meet again this day at 3.30 o'clock p.m.

AFTERNOON SITTING

The Committee resumed at 3.30 p.m.

Examination of Mr. Gray Miller continues.

The CHAIRMAN: Order, gentlemen.

By Mr. Sommerville:

Q. At adjournment, Mr. Miller, we were dealing with the question of Mr. Gregory's business in selling fertilizer as well as his buying tobacco?—A. Yes.

Q. Just a few questions relating to that. I think it has been established that he has been in business from 20 to 25 years?—A. Some years, yes.

Q. And is it not a fact that in the year 1931 it was arranged that he would turn over the fertilizer business to a company to be known as the Gregory Fertilizer Company?—A. Never to my knowledge—no name mentioned—he was to turn it over to an incorporated company, over to his brother.

Q. That is, his brother is the President of that Company?—A. And to divest himself of any financial interest in it, or operation of it.

Q. Let us get first: perhaps you had better consult with Mr. Buell and probably you can find out from him some of the details—first, it was to be turned over to a company to be known as the Gregory Fertilizer Company; that is my understanding?—A. All right. I don't remember the names there, but a company.

Q. Secondly, his brother was to be made President of that company?—A. I do not think there were any particular details as to how he was to do it. He was to divest himself of financial interest.

Q. Were there not details? I am informed that there were details, and these were the details: that it was to be done in this form of a company, known as the Gregory Fertilizer Company; this brother was to be president of it; and that was to be submitted to New York, and met with the approval of New York before it was finally done; is not that true?—A. He was to divest himself of the fertilizer business in such a way that he would have no further financial interest in it, or have no active interest in it.

Q. Yes?—A. And he was to get, if he did that, he was to get a salary of $20,000 a year instead of the $9,000 a year that he had been drawing before.

Q. Yes?—A. And he was gradually to divest himself of his interests in the farms; but we did not expect him to try to make a forced sale of it, and take a heavy loss out of it. Either that, or he was to retire from the Company in any active way; carry on with his fertilizer business and his farming business, and we would continue to give him a salary of $9,000 a year in an advisory capacity. These were the two propositions that we put to him, and he accepted the first.

Q. Yes. Now then, perhaps you will come back to the question: Was it not submitted to New York for their approval that the business he turned over to a company of this particular name, with his brother as president. Was that not submitted?—A. That particular phase of it—I don't know, sir.

Q. Well, we will enquire from Mr. Buell, because I understand that that was actually the case.

Now, Mr. Lane, you do not need to prompt the witness at all, because Mr. Buell is the man that did the business; and this witness, if he wants the information, can get it from the source from which that information is available.

Was it not a fact that Mr. Buell submitted this arrangement to New York for their approval, and they approved of it?—A. I do not recall anything at all about the question of what was to be the name of the company, or who was

to head it, or what not. As to his brother's being interested in it, yes; we understood that, but he was to divest himself of any financial and personal interest in the management of that business.

Mr. KENNEDY (*Peace River*): This New York, how does that come into it.

By Mr. Sommerville:

Q. I want you to ask Mr. Buell.—A. I will tell you, I do not know why he called it New York. The British American Tobacco Company has Sir Hugo Cunliffe-Owen, and Mr. Cooper, who are two directors; and our Mr. Harrison, whom someone talked about before. They realized this situation as well as we did, about Gregory being in the fertilizer business, and they did not think it was right, and we did not, either. We thought it should be corrected and naturally we conferred with them along those lines, just the same as we would on any proposition. They were directors of the company. But as to saying about New York—they might have been in New York, or they might have been in Louisville, or Richmond—I do not know where they were.

At the request of the Chairman, Mr. Kennedy (Winnipeg) took the chair.

By Mr. Sommerville:

Q. Was it not a fact that you sent this whole proposition down from Montreal to the British American in New York to ascertain whether they would approve of this arrangement? -A. I do not think it was just that way at all, Mr. Sommerville. It was, as I have said, that they had objected to it as well as we had, and we had agreed as to the best way out of it, and as to whether they thought—and we both agreed on this. Yes, they knew what the arrangement was going to be; but to say it was to be called the Gregory Fertilizer business, and that the brother was to be president; I do not think all these details were dealt with.

Q. Perhaps you will recall, Mr. Buell, because I am instructed that that was so.—A. The principal points that you want to know: you want me to inquire now as to what are the principal points, whether it was to be called the Gregory Fertilizer Company.

Q. Whether his brother was to be put in as president?—A. Yes.

Q. And a separate manager was to be obtained for the business, but there was no suggestion, or no question of his parting with any financial interest he had in the business; it was a separation in name?—A. That was not understood at all.

Q. Well then, find out for me how far it was understood, was it to be the Gregory Fertilizer Company, and was the brother to be put in as President?—A. All right, sir, excuse me.

Mr. KENNEDY (*Peace River*): Why does this thing have to be referred to New York?

Mr. SOMMERVILLE: It just indicates where the control is.

The WITNESS: Mr. Buell confirms what I state, that so far as the name of the company was concerned, that we had no interest or particular knowledge of what it was to be called. As to his brother, it was understood that his brother, it was understood that his brother, he was going—I do not know he was going to work it, sell it or give it to him—but as to whether his brother was to be President of it, Mr. Buell has no knowledge of it as to whether it was or not.

By Mr. Sommerville:

Q. Mr. Buell knew, and you knew, that the brother had for years been an invalid and could not manage any business?—A. That is very true, but he was named manager of it.

Q. And a manager was obtained for it?—A. All right.

Q. An independent manager?—A. Perhaps.

Q. Was not that a fact?—A. I do not know, sir. I do not sir, truthfully. May I ask Mr. Buell? Was there a manager obtained, Mr. Buell? Yes.

Q. And then, subsequently, Mr. Gregory was asked to resign—the next year? —A. Yes, because he had not lived up to his arrangement and he admitted it.

Q. He had not parted with his shares in that company, I presume?—A. And he was soliciting business for the Fertilizer Company, and doing various things—being active in the fertilizer business.

Q. Is it not a fact that you encouraged him in the Fertilizer business, and that Mr. Buell had declared that for every 5 cents he made in the fertilizer business, the Imperial Tobacco Company made a dollar?—A. Well, I don't know. Certainly the development of the fertilizer business undoubtedly helped develop the tobacco business, there is no question about that.

Q. And until 1930 or 1931 the fertilizer that was used came from the United States, was a kind that the Imperial Tobacco Company recommended?—A. Yes, we thought it was good fertilizer.

Q. And it was handled through your—?—A. Yes.

Q. And it was to the advantage of the Imperial Tobacco Company?—A. Well, only indirectly in that it raised the quality of the tobacco we believe; that was the only interest we had in it.

Q. Now, Mr. Miller, just departing from this phase of the situation—I do not know whether you want to pursue your enquiry, Mr. Kennedy.

By Mr. Kennedy (Peace River):

Q. My point is: these matters refer to New York; now, Mr. Miller has made the point that they are referred to New York because there are two directors of the British American Tobacco Company associated with your company?—A. That is right, sir.

Q. Why do you have to refer this matter to New York to the British American at all?—A. We did not have to refer it, Mr. Kennedy.

Q. Why did you not deal with it in Montreal?—A. Well, we did. I have tried to point out that the British American Tobacco Company have a big interest in this company. 84 per cent of our stock is held in Great Britain, and here are two directors who are directors of this company. They have had a lot of experience in the tobacco business, and they are interested in the welfare of this company as well as of a lot of other companies that they are interested in; and they consult with us from time to time about it. But as to any dictation I mean very certainly that is not from New York in particular. I mean, the inference of being from New York, as if it were an American—I take it that is the point?

Q. As if you were subsidiary almost?—A. That is your point, being from New York—by the authority of an American company, or an American influence.

By Mr. Sommerville:

Q. Controlled from New York?—A. But, it is not. In the first place, I do not think the British American Tobacco Company have any office in New York at the present time, and have not had for some years. They have offices in Louisville, and this is the British American Tobacco Company that we are dealing with. It so happens that they sometimes come over to New York, just as they will come over to Canada. But I mean it is unfair, I think to make the suggestion that it is just New York, as it just happens to be that they come over. It is English, if you want to know, the influence is British; it is not an American influence, which is the inference drawn from that. Our stock certificates are in pounds sterling, originally issued on the English market, and they have been traded in on the English market for years.

By Mr. Kennedy (Peace River):

Q. When this matter was referred to New York, was it referred to these two directors, or to the British American Tobacco Company?—A. It would be to the individual director probably, not the British American Tobacco Company. It was to Mr. Cooper, as a matter of fact, so far as I know, who is also one of the directors of our company.

By Mr. Ilsley:

Q. Mr. Gregory said in his evidence that at the end of the first day of buying in 1931, Mr. Buell telephoned him that New York thought they were buying too fast in Ontario; rather conveying the impression to the committee that New York was dictating the rate of buying and the price to be paid, and keeping in very close touch with it?—A. That is wrong. I think Mr. Gregory has gotten a wrong inference from any conversation that might have referred to anything in the way of Mr. Harrison, or anything of that sort. There is no domination by New York with respect to any matters of that sort, and certainly I know nothing you can say is American domination.

By Mr. Sommerville:

Q. Mr. Miller, I suggest to you that you have been endeavouring to give to this committee the impression that the Imperial Tobacco Company is controlled absolutely within Canada, and is not controlled in its policy or in its practice from the United States?—A. Yes.

Q. I suggest to you, that not only is its policy controlled, but the appointment of its officers comes by way of suggestion from the United States?—A. What do you call United States? What is your inference? There are American stockholders. Who appoints the directors of the company? The directors, don't they? Who appoints the officers; the directors, don't they?

Q. You know exactly what I mean, Mr. Miller?—A. I do not know what you mean, sir. I do not know what you mean in the inference that this company is American controlled. 84 per cent of the stock of this company is owned in Great Britain.

The Hon. H. H. Stevens resumed the Chair.

By Mr. Factor:

Q. I was under the impression that the British American Tobacco Company owned over four million shares?—A. That is part of the British American Tobacco Company that is in England. It is an English company. It is not an American company. Their head office is in London. I do not know if they have an office in New York at all.

By Mr. Sommerville:

Q. But for certain reasons, incorporated in London?—A. You mean to say that you think that this company is controlled by American interests, Mr. Sommerville?

Q. Largely, Mr. Miller.—A. Of course, we cannot analyse what the stockholding is of the British American Tobacco Company.

Q. I do not care anything about an analysis of the stock-holdings. I am suggesting to you that the British personnel is from the United States; its policy is dictated by certain people in the United States?—A. I think you are wrong, sir; I do not know just on what you are basing your idea, or your inference.

Q. I am giving you an opportunity to be as frank as you like?—A. I am being frank.

Q. But my information, I may tell you, comes from very very direct sources; and I am really surprised at the answers you have made as to the position that the British American has taken with respect to your company;

or, rather, the impression that you have given to this committee in your evidence?—A. In what particular regard.

Q. As to the influence and control of this company by the British American. —A. You mean you do not think it is controlled by the British American?

Q. I think it is.—A. Don't you think the British American is an English Company?

Q. In name, yes.—A. Only in name.

Q. Yes.—A. Why do you question that it is in fact?

Q. I am leaving that to you now.—A. I do not know how—if you want to draw an inference of that sort, Mr. Sommerville—I do not know how I can disabuse you.

Q. By the way, you gave us a statement the other day as to the moneys that were paid out by your company by way of dividends?—A. A statement—what do you mean, our answer to a letter of yours that about 7 per cent was paid?

Q. You gave a list of the shareholders and I think you stated the proportion of the money that went to various countries. Is it not a fact that the dividends declared by you to the British American have been deposited in the United States?—A. Well, not recently, they have not. I believe that perhaps in years gone by they probably have been deposited. I understand that they have, by the Leaf Tobacco Company or some other financial arrangements of their own. But since the drop in sterling I understand they have, so far as I know, been taking their money in sterling, taking it to England. That has no bearing on it.

Mr. Factor: I don't see any particular object in pursuing this line of investigation. As far as I am personally concerned, I am interested in the methods adopted in the purchase of tobacco, and the methods adopted in the retailing or selling of tobbaco.

Mr. Sommerville: We will deal with that in a moment, Mr. Factor.

By Mr. Sommerville:

With reference to the statement you presented to the committee this morning, of the reductions in price to the consumer, that statement which is submitted shows the net selling price by you to the jobber, the net selling price by the jobber to the retailer, and the net selling price by the retailer to the consumer?—A. Yes.

Q. That is correct, is it not?—A. Yes.

Q. May I ask this, looking at that statement, Mr. Miller, did the Imperial Tobacco Company take the full $2.50 reduction in the price to the consumer, or did they require the jobbers and retailers to take a substantial portion of that?—A. No, the $2—it is shown here. We reduced our price. Take Turret, we reduced our price $2.13.

Q. Yes, you reduced your price?—A. And the reduction we got in tax was $2.

Q. The reduction in the tax was $2?—A. Yes.

Q. The Imperial Tobacco Company contributed 13 cents towards a further reduction to the consumer?—A. Yes—well, let us see. Was it 13? Well, about that, yes.

Q. Then the jobber reduced the price by what amount?—A. Well, whatever the figures are.

Q. $2.38.

Mr. Lane: $2.28.

The Witness: $2.28. They all work on a percentage basis.

By Mr. Sommerville:

Q. So that you contributed 13 cents of the additional 50 cent reduction over and above the excise; the jobber and the retailer contributed 37 cents?—A. 37 cents?

Mr. FACTOR: Making it half a dollar.

Mr. SOMMERVILLE: Yes, making it half a dollar.

The WITNESS: Yes. It is on a percentage basis. Presumably with the lower price, the more goods sold and the greater turnover.

By Mr. Sommerville:

Q. I am just getting at what the facts are?—A. Yes.

Q. That is the fair way of putting it?—A. Well, I don't know. It is your way of putting it.

Q. Well, is it not the fair way of putting it?—A. Well, we made a fair reduction. We got a $2 reduction in excise tax, and we reduced our cigarettes by more than $2 to the trade.

Q. Yes, in Winchesters, you reduced them to the trade $2.13?—A. Yes.

Q. In Viceroys, $2.15?—A. That is right.

Q. In Turrets, $2.13?—A. Yes.

Q. A similar scale in Guinea Golds, $2.13?—A. Sweet Caporal.

Q. Sweet Caporal. I am trying to get these all together, all of one type. Dixies, $2.13. Gold Flakes, you reduced the price 44 cents—was it $9.94? What do you say Gold Flakes were, 44 cents?—A. There had been a previous reduction.

Q. There had been a previous reduction?—A. Yes. from $13.70.

Q. That was six months before the tax came off; but at the time when the tax came off you reduced it 44 cents?—A. Yes.

Q. With reference to Millbanks, at the time the tax came off you reduced them?—A. $2.47—no, $1.47.

Q. You reduced them $1.47?

Mr. FACTOR: Is that excluding excise tax?

Mr. SOMMERVILLE: No.

Mr. FACTOR: It is including excise tax?

Mr. SOMMERVILLE: Yes.

The WITNESS: Then we reduced it $1.69, so that there is a total reduction of $3.16.

By Mr. Sommerville:

Q. At the time the tax came off I am talking about?—A. Yes.

Q. That was in November, 1932?—A. Yes.

Q. Up to that time they had been selling for $10.97?—A. Yes.

Q. Then you reduced it to $9.50?—A. Yes.

Q. That was a reduction of $1.47?—A. Yes. Then we reduced it to $7.81 in June, 1933, last year.

Q. In June, 1933?—A. Yes.

Mr. FACTOR: Between those two periods the reduction was less than the excise tax.

The WITNESS: That particular brand. But you will find some other brands.

Mr. FACTOR: Yes, but I am talking about that brand.

By Mr. Sommerville:

Q. What other factors entered into the reduction of price in your cut tobacco, when you reduced the price; for instance, did you take cigarette papers out of the packages?—A. Not altogether, not on all of them by any means.

Q. Was that done in the majority of cases?—A. No, some of them.

Q. The bulk of them?—A. No, I would not say that. You take Turret fine cut, the reduction from \$1.80 to \$1.60 had nothing to do with the cigarette papers.

Q. That was in 1929?—A. 1930.

Q. Between 1929 and 1930?

Mr. FACTOR: A reduction was made from \$1.60 to \$1.50.

By Mr. Sommerville:

Q. What about when it was reduced from \$1.60 to \$1.50?—A. The cigarette papers had come out, but the papers were a comparatively small part of the cost, very small.

Q. What other brands did you take the papers out of?—A. We took the papers out of all except Wills' cigarette tobacco.

Q. All except Wills' cigarette?—A. The papers are still in Wills' cigarette tobacco. We reduced that also 15 cents a pound, besides.

Q. Now, will you explain to the committee, Mr. Miller, what the merchandising policy is?—A. Well, we have got some statement here—I don't know whether it is what Mr. Ilsley wanted. We tried to clear up that point that Mr. Ilsley was talking about. I don't know whether you want to go into that.

Q. Yes, go ahead?—A. I will try to explain that as near as we can, Mr. Ilsley.

By Mr. Ilsley:

Q. I wish you would?—A. Take a brand of fine cut tobacco, Old Chum for example—or rather, Ogden's fine cut. The previous price was \$1.80 a pound. It was reduced to \$1.60 a pound; that is 20 cents a pound reduction.

By Mr. Sommerville:

Q. In June, 1931?—A. Well, I don't remember the exact date, but according to the statement—that is good enough, yes.

Mr. FACTOR: When was it \$1.80, 1931?

Mr. ILSLEY: Prior to June, 1931.

The WITNESS: Up to June, 1931. It was reduced to \$1.60, that is a difference of 20 cents. That is equal to $11\frac{1}{10}$ per cent of \$1.80. You have got to come to some common denominator, I suppose you would say, or one figure, to figure your percentage on. I just took that resale price of \$1.80. That would be $11\frac{1}{10}$ per cent. In 1930, we bought leaf for around 31·9, and in 1933 it was 19·8, which is $12\frac{1}{10}$ cents lower. That is $12\frac{1}{10}$ cents against 20 cents reduction to the trade; and on a percentage, it is $6\frac{7}{10}$ per cent, which was the reduction.

By Mr. Sommerville:

Q. On what?—A. Figured on the same \$1.80.

Q. That is 60 per cent?—A. No. The only way to figure is on a common denominator. You cannot compare percentages if you are not going to work with a common denominator.

By Mr. Ilsley:

Q. Just go over that again. I got you up to the point of the $6\frac{7}{10}$ per cent. You have $12\frac{1}{10}$ cents reduction a pound?—A. Yes.

Q. What is that?—A. That is figured on the same common denominator of \$1.80 a pound to the consumer.

Mr. FACTOR: No, you have got to figure that $12\frac{1}{2}$ cents percentage to arrive at an accurate percentage; figure it on 31·9.

The WITNESS: Oh no, that is not fair.

Mr. LANE: All right, Mr. Miller, let him go ahead and then compute your 20 cents reduction to the consumer on the same 31·9, and you will find your reduction to the consumer is about 50 per cent more than the reduction to the producer.

Mr. FACTOR: Oh, no.

By Mr. Sommerville:

Q. Don't let us get off on this. The fact of the matter is it was you that bought tobacco in 1930 and 1931?—A. What do you mean, the Imperial Tobacco Company?

Q. Yes?—A. We bought some.

Q. When you sold it, you didn't sell it at 20 cents a pound less. You sold it at ·06 cents a pound less. Look at your sheet?—A. Well, if you are going to—

Mr. FACTOR: The rest was absorbed by the jobber.

Mr. SOMMERVILLE: The jobber and retailer had to take less profits.

The WITNESS: Mr. Ilsley's point was the consumer, I understand.

Mr. ILSLEY: Yes. It is hardly fair to do that. He is flooring me now; and to switch him off before he does is hardly fair.

Mr. SOMMERVILLE: All right.

The WITNESS: We tried to get your point, Mr. Ilsley. If you are going take your percentage, for comparison, you have got to work it to a common denominator, take a common denominator. When you want to make a comparison, it has got to be divisible by the same thing or worked on the same thing. You can't compare two entirely different lines of items.

By Mr. Factor:

Q. Let me interrupt you; is it not a fact when you want to arrive at a percentage, to say that 20 cents reduction on $1.80 is $11\frac{1}{10}$ per cent?—A. Yes.

Q. That is the reduction to the consumer?—A. Yes.

Q. And when it comes to taking the other phase of the thing, the reduction on your tobacco, you say it is a reduction of $12\frac{1}{10}$ cents from 31·9?—A. Yes.

Mr. ILSLEY: Which was 40 per cent.

The WITNESS: I don't dispute that $12\frac{1}{10}$ cents is 40 per cent of 31·9; but I say it has no relation to the price, to the percentage of reduction of the price to the consumer.

Mr. ILSLEY: I think there is a lot in what you say, in view of the fact that a large number of other factors enter into it.

The WITNESS: Yes, all sorts of things.

Mr. LANE: 6 per cent is not comparable with the 11 per cent.

Mr. ILSLEY: There are so many other factors enter into it.

The WITNESS: Quite.

Mr. FACTOR: Provided there are no reductions in the cost of production in the other factors.

Mr. SOMMERVILLE: Labour and everything coming down, it would be less.

Mr. ILSLEY: That is different. I am not satisfied at all that you pass it on, but I think as you say, just giving those two figures does not prove that you have.

The WITNESS: I might point this out: it is not, in our own opinion, always good business, to take every brand every year, because there is a change in the price of tobacco, and reduce the price of all those brands; and the next year because the price of tobacco goes up, increase the price of those brands, or change them around continually. I mean, it is not practical business, in our opinion, to do that. You have got units of different sized packages of tobacco. You must generally sell in even nickels, 5, 10, 15, 20 or 25 cents packages. The public don't like 9 cents, 8 cents and 11 cents, odd cents. They don't like that.

By Mr. Sommerville:

Q. Is it fair to infer that the reduction in price of your finished article was 20 cents a pound?—A. To the consumer.

Q. Was that attributable to the reduced price at which you bought?—A. Yes, that is fair; on the whole; the reduced cost all the way through, including the reduced price of tobacco.

Q. You didn't reduce the price to the consumer because you bought the tobacco cheaper?—A. Well, that was a factor, the price of tobacco; and as I say, being able to use more Canadian tobacco. We have had to try to use Canadian tobacco, increase the amount of Canadian tobacco gradually and we have had to try to bring these prices down gradually.

Q. As a matter of fact, does the price you pay for the raw tobacco have much relation to the price you charge for the finished article?—A. Oh yes, it is bound to.

Q. To what extent?—A. Well, it is an important factor, an important part of the cost of making the article; one of the most important parts, after you take off excise tax paid to the government.

Q. May I put it another way: If you had paid the same price for that tobacco that you had paid in previous years, when it was say 12 or 14 cents higher, would you not still have quite a reasonable profit on the finished article? —A. There is always a question of what is a reasonable profit. I mean, it is a very big subject.

The CHAIRMAN: There would not be much trouble in discerning it.

The WITNESS: We would not have reduced prices probably—we would not have been in a position to—unless other materials had come down to offset it.

By Mr. Sommerville:

Q. I am trying to get your opinion as to whether the cost of tobacco, the raw material itself, is one of the prime factors, one of the greatest factors in the sales?—A. It is, in the cost, in the selling price of our goods. It is, yes. It is bound to be.

By Mr. Ilsley:

Q. You say that has some influence on the price you charge the consumer? —A. Bound to. Yes, it does.

Q. That is not what I would think would be the case. I would think you would charge the consumer what you could get, and pay the producer what you can get the tobacco for. I think that is what you do?—A. I am sorry you feel that way about it, sir. We tried to do all we could to assure you it is not so.

Q. Nearly everybody does it?—A. Well, in the first place, competition does make some difference, one way and another, on the price that we sell for. Certainly I think it has something to do with it.

Mr. FACTOR: 70 per cent profit.

The WITNESS: Well there is still 30, anyhow.

By Mr. Sommerville:

Q. Let us get at exactly what the reduction is that you make, the Imperial Tobacco Company; the reduction of the jobber in his lessened profit, and the retailer in his lessened profit. Take your list there, Dominion C.C.—what is that?—A. Coarse cut and fine cut.

Q. Coarse and fine cut?—A. That is a new brand. There is just an illustration. That is a new brand in a lower priced category than the others. It is at a lower price, which is in line with what we will do, gradually giving the consumer an opportunity to buy at a lower price; and all that affects the average price that we got for the goods.

Q. That was 97 cents a pound you sold for to the jobber?—A. Yes.

Q. Then in July, 1933, you increased that to $1.03 a pound to the jobber?—A. Yes, that is right.

Q. Then Ogden's fine cut and C.P.—what is that?—A. Cut plug; fine cut and cut plug.

Q. In 1929 you sold that at $1.23 a pound?—A. Yes.

Q. Then in June, 1931, you sold that to the jobber at $1.17 a pound?—A. Yes.

Q. Then in April 1932, you increased it to $1.19 a pound?—A. Yes.

Q. So that in April, 1932, you were selling it at 4 cents a pound less than in 1929?—A. 4 cents less than in 1929, yes.

Q. And 2 cents more than in June, 1931?—A. Yes.

Q. I think you paid about 40 cents for your 1929 tobacco, didn't you?—A. I don't remember the price now.

Q. Well, we won't stop for that just now.—A. I thought it was less than that.

Q. The next figure here is for Old Chum. You sold it in 1929 at $1.47 a pound?—A. Yes.

Q. Then in April, 1932, you increased it to $1.49 a pound?—A. Yes.

Q. Then in July of 1933 you reduced it to $1.39 a pound?—A. Yes.

Q. The next is Old Virginia; you sold it in 1929 at $1.13 a pound?—A. Yes

Q. In April, 1932, you increased it to $1.15 a pound?—A. Yes.

Q. And in February, 1934, you reduced it to $1.05 a pound?—A. Yes. All these changes in April, 1932, were due to an increase in sales tax, an upward increase in sales tax.

Q. An upward increase in sales tax?—A. Yes.

Q. A 2 per cent increase?—A. A 2 per cent increase.

Q. Then Picobac you sold at $1.13 in 1929?—A. Yes.

Q. And in April, 1932, you sold it at $1.15?—A. Yes.

Q. And in August, 1933 you sold it at 98 cents?—A. 99 cents practically.

Q. Then Rex Mixture, in 1929 you sold it at $1.47?—A. Yes.

Q. And in April, 1932, you sold it at $1.49?—A. Yes.

Q. And in January, 1934, you sold it at $1.19?—A. Yes.

Q. Sweet Caporal, in 1929 was $2.28?—A. Yes.

Q. And in January, 1932 it was $1.82?—A. Yes.

Q. And in April, 1932 it was $1.85?—A. Yes.

Q. And in September, 1933 it was $1.12?—A. Yes.

Q. And Turret, in 1929, it was $1.23?—A. Yes.

Q. And in 1930 it was $1.17?—A. Yes.

Q. And in April, 1932 it was $1.19?—A. Yes.

Q. And in September, 1933 it was $1.12?—A. Yes.

Q. And Wills Cigarette Tobacco, in 1932 was $1.32?—A. Yes.

Q. And in August, 1933 it was $1.34?—A. Yes.

Q. Now, that actually indicates the amount of the allowance that you, as a manufacturer, have made in the price of these various tobaccos?—A. The changes in them, yes.

Q. Then in addition to that he got less profit?—A. The same percentage of profit.

Q. How could he if you got a reduction all through? The retailer made his contribution, and the jobber made his contribution towards a reduced price to the consumer?—A. Well, it is directly the same percentage of profit. If the price goes up he gets the same percentage; he gets a bigger profit.

By Mr. Young:

Q. Are all those brands made of Canadian tobacco?—A. No, sir.

Q. A percentage of imported is included in these brands?—A. Varying percentages.

The CHAIRMAN: I do not think the witness should be asked to disclose those percentages.

By Mr. Young:

Q. In order to know whether you pass the reduction on we should know how much Canadian tobacco you use?—A. Dominion Fine Cut has got 100 per cent; Rose Bud has got 100 per cent, and Picobac has got 100 per cent. We have spent, I think, $400,000 on Picobac trying to develop it as a particular Canadian product.

By Mr. Factor:

Q. What about the price paid for American tobacco in the years 1931 and 32?—A. We bought very little American tobacco in recent years because of the increasing usings of Canadian tobacco, and a good big stock of imported tobacco brought about by reduced using and reduced business. The whole volume of business in Canada has been less.

Q. Then in 1931 it was 8·5, and in 1932, 11·3?—A. Those are not our prices. That has no bearing on our prices at all. I have not really tried to look into what it was, but we have purchased very little imported tobaccos in the last few years.

By Mr. Senn:

Q. Mr. Miller, apropos of the question I was asking a little while ago, I can readily understand that the price paid for Canadian tobacco may have a bearing on the retail price of the fancy article, but does it have the same bearing with respect to cigarettes?—A. Yes, sir. Well, of course, cigarettes are not as easily adjusted.

Q. I think you made the statement a few days ago that it was impossible to pass the lowered cost of the raw product on to the consumer?—A. The small difference, Mr. Senn.

Q. Well then, in fact I suppose one may infer that the cost of the raw material has very little effect upon the price of cigarettes to the consumer; is not that a fair assumption?—A. Well, you see it has relatively lesser effect because you have got a very heavy excise tax on cigarettes.

Q. But leaving aside the excise tax altogether?—A. It is bound to be taken into consideration in arriving at the price you sell to the consumer.

Q. You said you could not reflect it in the price because there was only a cent or a cent and a half in a package of 20 cigarettes?—A. That is not right; I do not think that can be right.

By Mr. Sommerville:

Q. Professor Leitch said he would be glad to get $1\frac{3}{4}$ cents for the amount of cigarette tobacco in a package of Turrets—20 cigarettes?—A. We are used to figuring in thousands rather than a unit package.

By Mr. Senn:

Q. As a matter of fact, you say it is difficult to reflect it in the price to the consumer?—A. It is very difficult to reflect the small difference in the price of tobacco in the price of a package of cigarettes. They are generally sold in packages of five, ten, fifteen and twenty, and sold at prices of five, ten, fifteen and twenty-five cents. Well, it is very difficult to make any small change, that is, in the cost of the raw material.

By Mr. Senn:

Q. Well then, I would like to ask a further question. A difference of 10 cents a pound in the raw material entering into cigarette manufacture would make very little difference to your profits in cigarettes?—A. Profits in cigarettes?

Q. Yes?—A. 30 cents a pound to the farmer?

Q. 10 cents, a difference of 10 cents?—A. 10 cents a pound to the farmer, you must remember is probably equal to—there is a 10 per cent shrinkage, and handling and rehandling charges; it would probably make a difference of 13 or 14 cents a pound to us before we could get the tobacco in hand. Say that it is 3 pounds to the thousand, that is 39 cents or 40 cents a thousand cigarettes. Well, that is a big profit. You take 40 cents per thousand cigarettes on a production of four billion per year that figures at $1,600,000, so at 10 cents a pound it does make a big difference.

Q. Even if that were reduced from your actual profits, do you not think you would have a reasonable profit left?—A. Of course, that is another question.

By Mr. Sommerville:

Q. Did you have another statement for me, Mr. Miller?—A. Yes, sir, a statement showing quantities and grades of Canadian grown leaf used during the twelve months ended 31st March, Canadian Virginia, and also a statement showing quantities and grades of Canadian Burley used during the twelve months ended 31st March. And I believe some mention was made of that being done by crop years. It was also said that if we did not have it then not to bother with it. Well, we did not have it, and it was a very laborious job to get it, but I hope that will answer your purpose.

Q. Then this represents?—A. The usings each year of all the years' crops that happened to have been used.

By the Chairman:

Q. Take what you use in a given year, some of it may be the previous year's crop, some of it may be two years and some three years?—A. Some of it.

By Mr. Sommerville:

Q. In other words your total usings for 1934 amounted to 8,158,449 pounds?—A. Yes.

Q. Is that correct, of Canadian flue-cured tobacco?—A. Yes.

Q. And your total usings of Burley for 1934 was 6,243,386 pounds?—A. Yes, sir.

The CHAIRMAN: That is for the year ended what date?

Mr. SOMMERVILLE: That is the year ended 31st March, 1934.

By Mr. Young:

Q. Can you give us the imported tobacco you used in the same period?—A. We will make a note of it and se if we can get that for you.

Q. The total is all I want?—A. A. We will be glad to give it to you sir.

By Mr. Sommerville:

Q. In other words you used last year 14,391,000 pounds odd of flue-cured tobacco?—A. The two together, yes. Answering your question, Mr. Young, we used roughly about 7,000,000 pounds.

By Mr. Young:

Q. That would mean then about 40 to 50 per cent of the tobacco you put out is imported?—A. The flue-cured.

Q. And the balance is Canadian leaf?—A. Roughly that. Does that answer your question.

Mr. YOUNG: Yes, thank you very much.

By Mr. Sommerville:

Q. And does this include the use by your subsidiary companies, Mr. Miller?—A. Yes it does, Mr. Sommerville.

Q. For both these kinds of leaf?—A. Yes.

The CHAIRMAN: Those statements will go in the evidence.

IMPERIAL TOBACCO COMPANY OF CANADA LIMITED

STATEMENT SHOWING QUANTITIES AND GRADES OF CANADIAN GROWN LEAF USED DURING THE TWELVE MONTHS ENDED 31ST MARCH

Canadian Virginia	1930	1931	1932	1933	1934
CVW	....	....	....	11	35,984
CV1	1,286,789	1,191,819	1,372,223	1,406,097	1,142,650
CVL	....	....	967	6,940	159,834
CVO	....	....	875	375,124	1,543,038
CVO2	....	....	....	....	2,730
CV2	706,522	1,345,635	1,169,427	1,200,183	1,226,535
CV3	1,451,605	1,737,208	1,940,488	2,143,884	2,606,040
CV3[2]	....	....	....	....	2,634
CV4	763,008	755,791	758,990	1,044,479	638,443
CV5	371,731	371,032	869,497	372,861	533,989
CV6	11,491	68,230	90,181	93,128	114,493
CV7	151,452	110,339	88,502	121,577	135,295
CVP	....	....	21,570	18,814	16,784
CVX	40,969	138,999	....	....	....
Total	4,783,567[2]	5,719,053[1]	6,312,720	6,750,098	8,158,449

[1]Six months only for Tucketts.
[2]Tuckett not included.

IMPERIAL TOBACCO COMPANY OF CANADA LIMITED

STATEMENT SHOWING QUANTITIES AND GRADES OF CANADIAN GROWN LEAF USED DURING THE TWELVE MONTHS ENDED 31ST MARCH

Canadian Burley	1930	1931	1932	1933	1934
GB	172,925	193,892	205,258	349,620	550,709
XL	....	....	14,720	110,543	250,345
DLS	1,024,250	2,033,163	1,266,050	927,961	895,748
DLR	1,381,429	1,337,046	1,029,853	885,821	893,736
G	728,049	1,005,163	1,100,661	1,371,188	848,101
H	1,436,948	1,512,329	1,555,391	1,503,597	980,913
B	534,098	675,355	696,316	752,287	737,023
BL	1,149,328	1,071,382	1,258,275	999,500	498,144
CL	....	....	....	64,658	460,839
CS	....	....	....	8,360	41,422
AL	....	....	109,174	113,471	....
Scrap	15,242	14,069	122,919	96,420	22,056
Quebec Shag	....	3,047	29,833	37,422	51,434
Dark Fired Scrap	....	14,109	39,758	22,923	12,916
BK	9,336	....	....	....	....
FCB	126,189	....	....	....	....
Total	6,577,794[2]	7,859,555[1]	7,428,208	7,243,771	6,243,386

[1]Six months only of Tucketts.
[2]Tucketts not included.

The WITNESS: Then you asked for a statement on the cost of purchasing B. Houde Company stock.

By Mr. Sommerville:

Q. Oh yes, on the cost of purchasing the B. Houde stock, the consideration given for the shares you got from the American Tobacco Company?—A. The American Tobacco Company bought from Messrs. J. A. and J. E. Dusseault in

March, 1903, and paid cash $137,155.52 for 4,000 shares; and they sold two small lots to sundry individuals including M. B. Davis, and got cash for them; and then it purchased further stock from Messrs. Dusseault which left them with 3,650, shares or an investment of $123,438.02. Well then, that was taken over by the Imperial Tobacco Company Limited, and at that time they had a surplus in the B. Houde business, and there were apparently preference shares, you see, amounting to a total of $165,406.94, which represented tangible assets in the business at that time, and the difference was ordinary shares for trade marks, goodwill, and so forth.

Q. That it to say, when the Imperial Tobacco Company took over the Houde shares in 1908 they issued $143,065.23 of preferred shares?—A. Yes.

Q. And that was for the investment of $123,438.02?—A. Well, not exactly that. Yes that is right, with assets behind that.

Q. And in addition, the Imperial Tobacco Company gave ordinary shares to the value of $160,680.19?—A. Yes.

Q. And then subsequently obtained further shares from the individuals?—A. Yes.

Q. And altogether gave preference in common shares for each of these?—A. Yes.

Q. And they gave altogether in preference shares $165,406.94 for their entire holdings?—A. Yes.

Q. And that was the price apparently at which they bought plus $185,772.48 in ordinary shares?—A. Par value.

Q. Par value, yes.—A. Ordinary shares?

Q. Yes, and that represented a total value, including common and preferred in the end of $314,678.13?—A. Yes.

Q. And then when the Imperial of 1908 sold to the Imperial of 1912, the new company, the present company, they acquired 4,352 shares?—A. Yes, they acquired 4,250 shares.

Q. 4,250 shares for which they paid $314,678.13?—A. Yes.

Q. In cash, or was that in shares?—A. Exchange of shares and part of the assets.

Q. Do you remember whether that was common or preferred?—A. It would be some of both. It would be in relation to the assets of the 1908 company.

Q. And then it acquired further shares; the new company acquired further shares?—A. Yes.

Q. And the total cost of your present holdings of 4,352 share was $324,758.13?—A. That is right, sir.

Q. That is the present cost?—A. Yes.

SHARES IN THE B. HOUDE CO.—DATE AND MANNER OF ACQUISITION

CONSIDERATION GIVEN FOR SHARES

—	Date of Acquisition	Shares Acquired	Preference Shares	Ordinary Shares	Cash	Total
			$ cts.	$ cts.	$ cts.	$ cts.
American Tobacco Co. of Can. Ltd.—						
From: J. A. and J. E. Dusseault..........	March, 1903	4,000	....	....	137,155 52	....
To: Sundry individuals	April, 1903	450	....	....	15,430 50	....
M. B. Davis.......	April, 1903	300	....	....	10,287 00	....
From: J. A. and J. E. Dusseault..........	Oct. 1903	400	....	....	12,000 00	....
		3,650	....	....	123,438 02	123,438 02
Imperial Tobacco Co. of Can. Ltd. (1908)—						
From: A.T. Co. of Can. Ltd.............	July, 1908	3,650	143,065 24	160,680 19	....	303,745 43
Br. Am. Tobacco Co..............	July, 1908	270	10,582 91	11,885 72	....	22,468 63
M. B. Davis.......	July, 1908	300	11,758 79	13,206 57	....	24,965 36
E. I. Waagen......	Sept., 1908	30	....	....	2,496 53	2,496 53
Adjustment of investment........	Oct., 1910	....	....	....	38,997 82	38,997 82
		4,250	165,406 94	185,772 48	36,501 29	314,678 13
Imperial Tobacco Co. of Can. Ltd. (1912)—						
From: I.T. Co. of Can. Ltd. (1908)......	June, 1912	4,250	As per Agreement Sale of Business			314,678 13
J. A. Dusseault....	Aug., 1912	12	....	....	1,080 00	1,080 00
Mrs. B. A. Orchard	Jan., 1919	30	....	....	3,000 00	3,000 00
Miss Helen Lewis.	July, 1932	60	....	....	6,000 00	6,000 00
		4,352	....	....	10,080 00	324,758 13

The WITNESS: Then you asked for a statement showing the spread from the consumer's cost—the amount to the government, the amount to the dealers, and the amount to the manufacturers, Canada and the United States.

By Mr. Sommerville:

Q. This is a comparison of a popular package sale, showing the distribution to government, dealers and manufacturers between Canada and the United States?—A. Yes.

Q. And you are referring to 20 cigarettes for 20 cents as the standard sales value in Canada?—A. Yes.

Q. And per 1,000 cigarettes the consumer's cost is $10?—A. That is right.

Q. The government, in excise tax gets $4.—A. Yes.

Q. And the government duty on imported leaf is 90 cents?—A. Yes.

Q. And sales tax 44 cents?—A. Yes.

Q. So that the government gets a total of $5.34, or 53·4 per cent?—A. Yes.

Q. The dealers get $2.19?—A. Yes.

Q. Or 21·9 per cent?—A. Yes.

Q. And the manufacturers get $2.47?—A. Yes.

Q. Or 24·7 per cent?—A. Yes.

Q. These are the proportions?—A. Yes.

By Mr. Factor:

Q. You do not show what the retailer gets.

By Mr. Sommerville:

Q. That is jobber and retailer together?—A. Yes.

By Mr. Factor:

Q. You have not split them up. When a dealer buys from a jobber, can you tell me what percentage he gets?—A. The jobber operates generally on 10 per cent. I have not got the basis here, we would have to figure it out.

By Mr. Senn:

Q. You have not divided the $2.40 between the producer, and labour and other costs?—A. No, I have not. I understood this was a comparison with the United States.

By Mr. Factor:

Q. I am informed that the retailer gets 2 cents a package on cigarettes? Can you confirm that, on a 20 cent package.—A. It is about 3 cents on a 20 cent package.

Q. Closer to 3 cents?—A. Yes, sir.

Q. I have several letters in which they say they only get 2 cents on a package of cigarettes, on a 20 cent package.—A. A 20 cent package?

Q. Yes.—A. I don't know how it could be.

By Mr. Sommerville:

Q. Now then, Mr. Miller, the manufacturer gets $2.47?—A. Yes.

Q. For a thousand cigarettes?—A. Yes.

Q. That is correct is it?—A. Yes, sir.

Q. And that is for 3 pounds of tobacco?—A. Yes, sir.

Q. In terms of tobacco that would be approximately 82 cents a pound?—A. Yes.

Q. Then, of course, that includes all manufacturing costs of every nature that enters into it?—A. Yes, and advertising, and selling.

Q. But the spread is reflected in what you have given me ?—A. Yes.

Q. Between what is paid the producer and the ultimate price at which you sell it, 82½ cents or 82⅓ cents?—A. Well, the dealer and manufacturing costs.

Q. All the costs entering into it?—A. Very good, come out of the $2.47, yes.

Q. And if tobacco is sold at 20 cents a pound, 3 pounds 60 cents, that leaves a margin of 67 cents for the manufacturer.—A. I don't think you are right.

Q. $2.47 is 82 cents a pound, for 3 pounds of tobacco?—. Yes.

Q. And if you are paying 20 cents for your tobacco that leaves 62 cents?—A. A pound?

Q. Yes, a pound.—A. Yes.

Q. Yes, for your manufacturing costs?—A. Yes.

By Mr. Young:

Q. Providing it is all Canadian tobacco?—A. Yes, quite.

By Mr. Factor:

Q. Can you tell me how much of the $2.47 will go into labour in those thousand cigarettes?—A. We have not got that, sir. Cigarettes are made by machinery, you know, and they are packed by machinery.

Q. I quite appreciate that.

By Mr. Sommerville:

Q. But there is a profit?—A. Oh yes, but I do not know offhand how much it is.

By Mr. Factor:

Q. Do you think you can get that information without any trouble?—A. Yes.

Mr. SOMMERVILLE: What you want is a breakdown of that item of $2.47?

Mr. FACTOR: Yes.

The WITNESS: In the United States the manufacturers' figure is $2.26 against our figure of $2.47.

By Mr. Sommerville:

Q. Yes.—A. And following that out, 15 cents for leaf would leave 60 cents for the manufacturer in the United States against 62 cents here, or your basis of calculation.

Q. Yes, so that in the United States as against the government getting $5.34 here the government gets $3.12 over there?—A. Yes.

Q. And as against the dealer getting $2.19 here the dealer over there gets 87 cents on the two for a quarter packages?—A. That is right.

Q. And in the United States the government gets $2.26?—A. Yes, for either the 12½ cent package or the 15 cent package. I have talked with some of our people. You were talking about the percentages of the purchases in the United States. The percentage in the United States, I understand, is at 12½ cents, or under, perhaps.

Q. Then this $2.47 that the government gets will depend upon the amount of Canadian tobacco that is used?—A. Yes.

Q. So do I take it that this $2.47 that is referred to is on a popular priced cigarette that uses most of the American tobaccos?—A. Yes, it is worked out on 75 per cent of imported tobacco and 25 per cent of Canadian tobacco.

Q. Yes, but if you worked it on a 50-50 basis then there would be more to the government?—A. Yes.

Q. And in those cigarettes in which you have more than 50 per cent, of course, it would be substantially increased again?—A. Yes, proportionately, of course, in that proportion that is used, but remember that as against that the price of Canadian tobacco is certainly higher than the price of American tobacco.

Q. Oh, yes.

IMPERIAL TOBACCO COMPANY OF CANADA LIMITED

CIGARETTES—CANADA AND U.S.A.

POPULAR PACKAGE SALE—SHOWING DISTRIBUTION TO GOVERNMENT, DEALERS, AND MANUFACTURERS

Per 1,000 cigarettes	Canada		United States of America			
	20 cigarettes for 20c. Standard Sales Value		20 cigarettes for 12½c. Average Sales Value		20 cigarettes for 15c. Maximum Sales Value	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	$ cts.		$ cts.		$ cts.	
Consumers' Cost	10 00	100·0000	6 25	100·0000	7 50	100·0000
Government						
Excise Stamp Duty	4 00	....	3 00	....	3 00	....
Duty on Imported Leaf	0 90	....	0 12	....	0 12	....
Sales Tax	0 44	....	....	....	....	....
	5 34	53·4000	3 12	49·9200	3 12	41·6000
Dealers	2 19	21·9000	0 87	13·9200	2·12	28·2667
Manufacturers	2 47	24·7000	2 26	36·1600	2 26	30·1333
	10 00	100·0000	6 25	100·0000	7 50	100·0000

By Mr. Sommerville:

Q. Will you be good enough to describe to the committee your sales policy, your sales system, and your program of dealing with jobbers and retailers in the Imperial Tobacco Company here?—A. Well, Mr. Spafford, our vice-president in charge of our sales and advertising is here, and he is much more intimately familiar with the details of that, and I will be glad if you will let him speak.

By Mr. Young:

Q. Before Mr. Miller leaves the stand, I would like to know whether in buying tobacco here from our Canadian growers you pay the same price as is paid in other countries for the same kind of tobacco?—A. We pay a higher price, sir.

Q. Can you give us the relative prices of flue-cured tobacco in the principle producing countries?—A. Oh, I thought you were referring to the United States. I do not know that we have got a very intimate knowledge of comparable qualities and prices in other parts of the world, sir.

Q. We got the American prices, and I would like it for other countries as well.—A. The only other price we have is the price in England of Empire Leaf, on page 13. That is the only information we have got, and then, of course, it is a question of comparable quality.

By Mr. Sommerville:

Q. And then, Mr. Miller, it is a question as to whether or not these are flue-cured leafs?—A. Yes quite, absolutely.

Q. So that the only comparable figure you have is the United States figure? —A. Yes.

Q. Because there you are comparing Virginia flue-cured with the similar product in Canada?—A. Yes.

By Mr. Young:

Q. Then can you give us comparable retail prices of this tobacco when it is manufactured in the various countries?—A. Well, that again depends upon the excise in the various countries, which is always pretty high in every country.

Q. You can make allowance for that though.—A. I do not know how we could work it out. We could, of course, make an attempt at it, but we are not familiar with all the various prices.

The Chairman: Not only excise but various other duties. The taxes take different forms, and it would be quite a task, I admit; it would be rather difficult for them to give you that, Mr. Young.

The Witness: And then the question of formula comes in, the type of tobacco used. It may be Havana tobacco or any sort of tobacco. That is a very difficult question.

By Mr. Young:

Q. Do you pay 40 cents a pound?—A. For all flue-cured and Burley?

Q. Yes, all tobacco. What is the total duty you pay in a year?—A. Well, on a seven million pounds using it would be about $2,700,000.

Q. That is on your flue-cured only?—A. Yes, that is true.

By Mr. Sommerville:

Q. About fourteen million pounds using?—A. Imported, all told.

Q. No, your usings, and you only pay on your imported as you use it?—A. Yes. It would be about probably three and a half million dollars.

Q. Wait a minute, you only pay on your usings of imported leaf?—A. Yes, sir. Well. withdrawals.

Q. And you have withdrawn about seven million pounds?—A. Yes, but then that is flue-cured. You see, there are a lot of other types of tobacco that are imported. $2,800,000 is the figure here for the year ended March 31, 1934.

Mr. SOMMERVILLE: Mr. Young, you have that from all the manufacturers set out in that schedule that was filed at the very outset of the tobacco inquiry.

By Mr. Young:

Q. And then have you got the excise you pay?—A. Excise stamps on manufactured tobacco and cigarettes?

Q. Yes?—A. $17,200,000.

Q. That is only stamps. Do you pay it any other way?—A. The total tax here is about $24,290,000.

By Mr. Factor:

Q. Is that for one year?—A. One year, 1934, $24,290,000.

By Mr. Young:

Q. That is apart from the duties?—A. No, that is including all tax—

Mr. FACTOR: Paying out so much money, what would you think of the idea of the government taking over the tobacco industry as in France and Italy, or is that a matter so preposterous as to be laughed at?

By Mr. Senn:

Q. May I ask you one question before you leave. This matter of over production, it seems to me, is one of the most serious aspects of the whole situation?—A. You are right, sir.

Q. And there must be one way or, at least, two ways of overcoming it: one is to curtail production and the other is to increase our export trade?—A. Yes.

Q. Have you any suggestion to offer to the committee as to how our export trade particularly with Great Britain, in view of the preference we have, can be increased?—A. Well, the only way I know of is to try—we know is to try to get other manufacturers as a whole actually interested in Canadian flue cured tobacco, and I might say that we have planned that Mr. Buell and probably Mr. Townsend, who is an Englishman and has been in England a lot and knows a lot of those manufacturers over there, to go over to England this summer with the idea of doing our best to sell the Imperial Tobacco Company of Great Britain the idea of using Canadian flue cured tobacco, and, in addition to that if the Canadian Trade Commissioner wishes us to be free to go and interview other manufacturers, to try and help them—we have genuinely the welfare of the farmers at heart, irrespective of the criticism—we think we have. We certainly want to try to do that. We are perfectly willing to do that. If we cannot—perhaps it has been a question of whether we could sell the British Imperial Tobacco company or any of these people any leaf. I do not know whether we will have to get permission to do it. That is our idea. We believe we can help. The producers here think we can help. And we told the Ontario Department of Agriculture that some little time ago, and we intend to do it. If it had not been for this investigation, Mr. Buell would have been on the water now, over to England, among other things—that wasn't the whole object of his trip. He was going over to the manufacturers in Holland—cigar tobaccos—and that is one way, and we hope we can do something.

Q. One witness to-day, Mr. Miller, said that the production of flue cured tobacco might be increased to probably 50,000,000 pounds. In that case a considerable portion of it would have to be exported?—A. Yes, sir.

Q. Would there be anything detrimental to the interests of your company if that export did take place?—A. It would be to our advantage, sir; we would be pleased to see an export of flue cured tobacco. It brings money into Canada; it helps the farmer; and helping the farmer and helping Canada helps us. We

are going to try to encourage the use of flue cured tobacco in England, and we are going to make a proper effort to do so. I hope we may meet with success. We are certainly going to try.

Q. I wanted to state those two points, because it seems to me they represent the whole crux of the situation?—A. I think you are quite right, sir, and limiting the production; if they will only reduce their growing to a reasonable figure.

Q. I do not like that idea of curtailment if it is possible to accomplish this in any other way?—A. I quite agree, sir. We do not either; but there is no good of their producing the tobacco if there is not a market for it, is there?

By the Chairman:

Q. I should like to ask you this question. I have it here somewhere, but you probably have the details in your mind. What quantity of this flue cured tobacco is imported into Great Britain, apart from Canadian?

Mr. Sommerville: 197,000,000 pounds.

By the Chairman:

Q. From the United States. Is it something like 180,000,000 pounds?—A. I think you mentioned that the other day. I am sorry I did not think to check that.

Q. Anyway, it is a very large amount?—A. Yes, sir.

Q. And the amount we have in excess for export is so comparatively small that it strikes me that there should be no difficulty for these three great corporations, the Imperial of Great Britain, the British America and the Imperial of Canada, in co-operation easily providing for that absorption?—A. Exactly what we have been trying to arrange. We have talked about it—I hate to mention whom we talked to about it because you might criticize—to our British American directors; we have talked about it to them, and if they would talk about it over there—

Q. Can we be assured of this in a very definite way that there is no prejudice on the part either of the British American, or the Imperial of Great Britain against the development of this export of Canadian flue-cured tobacco to Great Britain?—A. I do not think I could answer at the moment; certainly not on the part of the British America Tobacco Company, I can speak for them, Mr. Stevens. I do not know of any real prejudice. They have taken some of it. They are very conservative, Mr. Stevens. I am talking—

Q. Here is a situation which is impressed upon my mind: your consumption here annually of Canadian tobacco is about 14,000,000 pounds?—A. Yes.

Q. You have expressed some alarm at the accumulated surplus, but you said your surplus is now about 24,000,000 pounds?—A. Our total stock.

Q. Inasmuch as your stock is made up of two or three year's production it does not seem that it is much out of line with your normal requirements? —A. It is a little on the large side.

Q. A little?—A. Probably four or five million pounds. It is not serious. We, however, have increased business.

Q. Having in mind that it is not a perishable article— —A. It is quite all right. We are not worried about it.

Q. What I am getting at is that it does not really present a serious problem insofar as the production of Canadian tobacco is concerned, because you have rather over-emphasized the reduction of Canadian production.

Mr. Young: Is there not a lot in the farmers' hands?

The Witness: Oh, 10,000,000 pounds, and there is another big crop coming on.

By the Chairman:

Q. I am speaking of Mr. Miller's own statement regarding their requirements and their surplus, and I am putting it to him now, that there is not any

real alarming surplus?—A. Well, if they can move those 10,000,000 pounds that are on the market our surplus is not worrying us because we hope to increase the users of our flue-cured tobacco, and that whereas at the moment it is more than we would normally wish, there is nothing to be worried about. We think it will work out as far as we are concerned all right. In other words, we can go into the market next year, certainly on a basis of buying annual usings of this year—a year's usings.

Q. In addition to what you will have there is something like 10,000,000 pounds on hand in Canada?—A. Yes, sir.

Q. And you still have about six months or more before the new crop comes on.

Mr. SOMMERVILLE: That is, 4,000,000 more pounds will be used?

The WITNESS: Yes, approximately.

By the Chairman:

Q. So that with Great Britain importing around 175,000,000 pounds, we will say roughly of American flue-cured tobacco and 10,000,000 pounds in the hands of our farmers that does not constitute a serious problem, does it?—A. If the manufacturer, Mr. Stevens, wants to use this tobacco; but up to now my opinion is—the best we have been able to get—that some of the big manufacturers are not enthusiastic about increasing their usings. We are going to try to persuade them.

Q. Due substantially to a natural reluctance to change sources of supply? —A. Yes, that is it.

Q. And quite naturally; but we have the three big companies again. Now, we cannot escape this that the British American and the Imperial of Great Britain and the Canadian Imperial are closely allied?—A. All right, sir.

Q. I have no complaint about that. I am not criticizing. Now, they are the big users?—A. Yes.

Q. They are the big handlers of our tobacco?—A. Yes.

Q. I submit again that it does not constitute a problem which would warrant us in saying to the growers in Canada that the situation is alarming. That is the point I wish to put to you and, if possible, get that admission to those questions?—A. Well, if they would reduce their crop as they have indicated—that is cut it by 25 per cent—and judging by our conversation with Mr. Leitch and others as to their prospects of selling these tobaccos, and having heard at least one statement of stock on hand of other manufacturers here—it, perhaps, does not, Mr. Stevens. I would like to give it consideration. Offhand I do not think it is anything very alarming if they will reduce their crop. The price has been a big factor.

Q. I know, but you have a 49 cent preference?—A. Yes.

Q. Within 49 cents there is a wide range of manipulation—shall I say of variation in 10 cents a pound extra to the grower in Canada. In any case, I take it from what you yourself have volunteered that you will earnestly cooperate in the endeavour to enlarge this market and solve the problem?—A. If you do not wish us—or will permit us, we will be glad to do it.

Q. I might say that as far as the department of Trade and Commerce is concerned and its agencies they are always at the service of the trade?—A. Yes, sir.

Q. Of all branches?—A. Yes, sir.

By Mr. Sommerville:

Q. Of course, there has been quite an extensive increase in the export to Great Britain from 1930 of 4,000,000 pounds to 14,000,000 pounds in 1933?—A. I think it has dropped off, and they have stocks on hand. Another thing,

Mr. Stevens, is in our opinion that although there is a difference between Canadian flue-cured tobacco and Rhodesian tobacco and Nyassaland tobacco—and we will admit that Canadian flue-cured tobacco may be better for the sake of argument, and I am impressed with this from the little I have seen—although I am not an expert I think it is—however, they have got to meet these prices somewhere. It may not be exact; it may be that you can get a little more money for the Canadian flue-cured, but we have always got these other tobaccos which have got that same preference which you refer to, which means it is going to hold down to a price all Canadian tobacco somewhat. It may not be. Maybe we can always get a higher price for Canadian flue-cured on the English market than these others, but these factors certainly have to be considered.

By Mr. Senn:

Q. I understand you to say that our tobaccos in the Old Country enter into competition with Empire tobacco rather than with United States tobacco?—A. Well, they come in competition with Empire, or, to put it the other way, probably the Empire tobaccos compete with Canadian tobacco, if you will. They sell a little bit under.

Q. I understand that our tobacco in grading quality compares more closely with United States tobacco than that of other Empire tobaccos. Is that true?—A. That is my own opinion. Some people feel that way about it, I think. and some people will tell you no.

Q. You have the impression quite definitely?—A. I, personally think that Canadian tobacco is better than most—certainly most of those I have seen, but I have not seen very much of it. Mr. Buell will be able to enlighten you on that.

By the Chairman:

Q. We have evidence here from reliable sources that our tobacco does more closely resemble the Virginian than the South African tobacco; but what Mr. Miller is emphasizing now is that no matter what you may say about that there is still the competition within the Empire in Empire products?—A. That is it, yes.

By Mr. Kennedy (Peace River):

Q. Last Thursday there was a witness before this committee who suggested that the Imperial Tobacco or one of it subsidiary companies had received advance information regarding proposed duties in sales tax or excise tax. What have you to say about that?—A. We did not get any advanced information about anything like that.

Q. The other suggestion was that you had been asked to contribute to certain campaign funds?—A. I have no knowledge of any contribution to campaign funds since I have been head.

Q. You say your company has not contributed?—A. I will say since I have been in charge of it and its executive we have not, and any particulars, I will be glad to get them. As far as I know we will be glad to get any particulars on it. I have no personal knowledge of the situation at all.

Mr. CHAIRMAN: Now, that this question has been brought up by Mr. Kennedy, I might say that the other day Mr. Stewart made a statement—I think, under a good deal of excitement and distraction of mind on his own part—yet it was a statement which, while the evidence indicates that in reply to a direct question of mine he said he had no personal knowledge, left a bad impression. The evidence naturally came to the attention of the Prime Minister who, during the noon hour, handed me a letter which I have before me, and during the morning sitting a letter came to me through counsel of the committee signed by Mr. Stewart; and in view of the fact that there was most

unusual publicity given to the statement of Mr. Stewart I think it is fair to those who are indirectly referred to that I should read these communications to the committee and the committee should have them before them with the view of taking necessary action in regard thereto. I will first read the letter that Mr. Stewart has addressed to Mr. Norman Sommerville, K.C., counsel of the committee. It is dated at Montreal, May 11:—

MONTREAL, QUE., P.O. Box 1929.

May 11, 1934.

NORMAN SOMMERVILLE, Esq., K.C.,
Price Spreads and Mass Buying Committee,
House of Commons,
Ottawa, Ont.

DEAR SIR,—I told you after my examination yesterday that I was sorry for some of the things I had said, I would have liked to have asked the Minister of Finance, the Minister of Excise and the Montreal Minister, Mr. Cahan, if they could tell why other manufacturers had advance information of the changes in excise duty.

I should not have said what I did about buying governments and commissions. I wish to retract it. I was exasperated by what seemed an unwarranted intrusion into my own affairs and somewhat bewildered by unusual surroundings. I ask you to convey my apologies to the committee. I do not wish to impugn the motives or the conduct of any member of the government.

You may read this letter to the committee and make it public if you choose.

The two statements which I said would be sent to the committee are being prepared; they will be finished to-morrow when I shall enclose them.

I am interested in the Growers receiving as high prices as possible but the draft agreement you submitted to me is not sufficiently definite to ensure fair treatment to all. I have therefore hesitated to sign.

Yours truly,

(Signed) WALTER M. STEWART.

In fairness I ask that this letter be given as much publicity as was given to Mr. Stewart's statement.

Now, in regard to the first paragraph, he said he would have liked to have asked the Minister of Finance, the Minister of Excise and the Montreal Minister, Mr. Cahan if they could tell why other manufacturers had advance information of the change in the excise duty. This gave to the Prime Minister, very naturally, considerable disturbance of mind, and the Prime Minister has written to me. This letter is dated May 12. It was written on Saturday but did not reach me until noon to-day. The letter is as follows:—

OTTAWA, May 12, 1934.

Honourable H. H. STEVENS, M.P.,
Chairman,
Special Committee on Price Spreads and Mass Buying,
Ottawa.

MY DEAR COLLEAGUE,—I have had an opportunity to look through the evidence given by Mr. Walter D. Stewart before the special committee on price spreads and mass buying on the 10th instant.

It appears to me that, while at the end his evidence is somewhat uncertain, nevertheless it is quite clear that he insinuated that the gov-

ernment, or some members thereof, have given advance information to his competitors regarding pending changes in the excise taxes on tobacco and cigarettes. May I ask you to be good enough to have him recalled for the purpose of naming the Cabinet Ministers whom he desired to examine and giving all information in his possession with respect to his allegations that Ministers of the Crown have been unfaithful to their trust.

Yours faithfully,

R. B. BENNETT.

Now, the committee will determine the recalling of Mr. Stewart to deal with the matter as suggested by the Prime Minister; but while Mr. Miller is on the stand, I should like to ask him this very direct question. Did any Minister of the Crown or anyone else give the Imperial Tobacco company any advance information of changes in the excise tax?

The WITNESS: No, sir, never, never.

The CHAIRMAN: You can answer that quite definitely?

The WITNESS: Yes.

By Mr. Heaps:

Q. Mr. Miller can tell us, I suppose, if any other firms that he owns actually closed down their establishments just prior to the change in the excise tax? A. So far as the reference to Tucketts' is concerned, I did not take knowledge of all the particulars, but just to-day over the phone I heard a letter from Mr. Ambrose with reference to the remark that Mr. Stewart made, the Tucketts' factory and Mr. Ambrose—I have not got the letter here, it was sent to me in Montreal, but it was read to me, and the purport of it was that they had investigated their records, and they could not find that the factory was closed down at the time referred to, November, 1932.

Q. Yes?—A. October or November, 1932. With all the records up there, and all the recollections they have, he says, they were not closed down. They have checked up their payroll records and their purchases of revenue stamps, production records, and everything, and so far as they can find out, there was nothing in that.

The CHAIRMAN: I think the committee will agree with me that it is a little unfortunate this should be interjected into our deliberations; because, as a matter of fact we are not here to investigate this sort of thing; also, Mr. Stewart seemed to me to be under considerable strain, and I would not like to say he was irresponsible, but he was rather reckless in some of his statements.

Mr. BOULANGER: His statements were not solicited at all.

The CHAIRMAN: No.

Mr. BOULANGER: They were voluntary.

The CHAIRMAN: Yes. And he has indicated here very clearly, as he says, that he was exasperated at what he thought was an unwarranted intrusion into his affairs.

Mr. BOULANGER: He said that there was one question that was put to him.

The CHAIRMAN: Yes. We have the answer of Mr. Miller. The committee, I presume, will desire to act on the suggestion of the Prime Minister and ask Mr. Stewart to appear. Of course, the courtesy should be given to the ministers to whom he refers, to come before the committee and make any statements they desire.

Mr. YOUNG: If Mr. Stewart has apologized for the statement and said he should not have made them, what further is there to do?

The CHAIRMAN: Personally, I do not see anything else.

Mr. FACTOR: It would just probably give him the chance to make some more statements.

Mr. KENNEDY (*Peace River*): He has not withdrawn the statement about advance information.

The CHAIRMAN: May I suggest this to the committee. The Prime Minister did not have this letter, addressed to Mr. Sommerville, at the time he wrote the letter to me. I only handed this to the Prime Minister about 2.30 this afternoon. I had not had the opportunity to show it to him before, which gives the information upon which it was suggested we should recall him for. Would it be satisfactory to the committee if we asked the ministers to whom he referred to come before the committee and state their views on the subject?

Mr. SENN: Mr. Chairman, he has not withdrawn his statements in that letter?

Mr. YOUNG: He says, I should not have made them.

Mr. SENN: He has not withdrawn the statement—

Mr. KENNEDY (*Peace River*): About advance information.

> The CHAIRMAN: He says I should not have said what I said about buying governments and commissions. I wish to retract it. I was exasperated by what seemed an unwarranted intrusion into my own affairs, and somewhat bewildered by unusual surroundings. I ask you to convey my apologies to the committee. I do not wish to impugn the motives or the conduct of any member of the government.

I do not see what more you can ask.

Mr. SOMMERVILLE: You remember what he said was that some man told a second man and the second man wrote to his office and his office told him.

Mr. BOULANGER: About the factory?

Mr. SOMMERVILLE: About the factory being closed down. That was the basis of the information. Now, I know he came to me in very great distress and intimated that he had made statements that were entirely uncalled for under the circumstances.

The CHAIRMAN: Then, I shall take the opportunity of asking my colleagues to come to the committee and make a statement to make the record clear on this matter.

Mr. KENNEDY *(Peace River):* Don't you think Mr. Stewart should be brought here or asked to come at that meeting when the ministers come; because I am afraid he will think there is just one side, if he is not—

The CHAIRMAN: We can notify him.

Mr. KENNEDY *(Peace River):* I think it would be well.

Mr. BOULANGER: In the first paragraph he does say—

The CHAIRMAN: He puts it in the past tense. He says, "I would have liked to have asked—"

Mr. BOULANGER: Give him the chance.

Mr. ILSLEY: Did Mr. Stewart come to Mr. Sommerville, or did Mr. Sommerville go to Mr. Stewart, in connection with the writing of the letter?

Mr. SOMMERVILLE: It came as a complete surprise to me. I may say, that the first indication I had was afterwards, when someone very close to Mr. Stewart came to me and expressed very great regret at the statements that he himself had made; saying that he was very, very sorry, and then he discussed it with me after that.

Mr. ILSLEY: Was it a solicitor of the W. C. Macdonald, Incorporated, who came to you?

Mr. SOMMERVILLE: No, it was not. For the information of the committee. it was his wife who came, and expressed very great regret, and said he had no thought or intention or dreamt of making any such statement and was very apologetic and sorry for the statements made; that they were unwarranted insinuations.

EARL SPAFFORD called, and sworn.

By Mr. Sommerville:

Q. What is your position in the Imperial Tobacco Organization?—A. Vice-president in charge of sales and advertising.

Q. Your company has a definite policy in regard to its sales?—A. Yes, sir.

Q. Would you be good enough to explain to the committee what that policy is?—A. Well, sir, we referred to that in our brief, and if I may read our reference, perhaps it will give you the information you asked for, and then I shall be glad to answer questions.

The CHAIRMAN: What page?

The WITNESS: In answer to Mr. Factor's question, page KK 2.

The CHAIRMAN: Page 77. Now Mr. Factor, you will pay particular attention to this.

Mr. FACTOR: I do not see why you should not pay as much attention to this as I should.

The WITNESS: Page 78 in our brief, answer 4:—

> Dealing with the method of jobbing and retailing. Our preference is to have the distribution of our products handled by jobbers, as indicated by the fact that 75 per cent of our business goes through this channel while 25 per cent is done direct with the retail trade. The distribution system through which our products eventually reach the consumer is composed of the recognized jobbing and retail outlets. This system has been built up over a period of many years and experience has proven it to be not only the best method of effecting and maintaining distribution, but the most economical. We are firmly of the opinion that the jobber, or middleman, serves a very useful and necessary need.
>
> Distribution costs on cigarettes and tobaccos through this method have been reduced to a minimum and this distribution machinery has been perfected in most areas to the point where it is to-day about as practical as could be expected. There are approximately 57,000 retail stores in Canada handling tobacco products. Approximately 5,000 buy direct from us, the jobbing trade serves the balance.
>
> The question of whether a retailer shall enjoy the privilege of buying direct from a manufacturer is answered usually by one or more of the following reasons:
>
> 1. Merchandising ability.
> 2. Size of community to be served.
> 3. Class of establishment maintained.
> 4. Advertising possibilities.
> 5. Financial responsibility.
>
> There are certain sections in eastern Canada where the jobbing trade has never been properly organized to look after the distribution of our products, and in such sections, we have for years effected the necessary distribution by selling direct to a considerable number of retail stores. For many years our policy has been to discourage this type of distribution in these particular areas and at the same time encourage the jobbing trade to take over this business. Some progress has been made, especially in Quebec, and it is hoped this progress will continue.

We have depots located in Vancouver, Calgary, Winnipeg, Montreal, Saint John and Halifax from which our customers are served, and strictly sales offices in other large centers. Our outside sales staff consists of 139 men. The greater majority of these men spend 90 per cent of their time contacting with the retail trade and from the indirect retailers solicit orders for our products to be shipped to them through the jobbers. This is a service that not only is of vital interest to our brands but is greatly appreciated by the retail and jobbing trade.

By Mr. Sommerville:

Q. How many men?—A. 139, sir—I should correct that sir. In 1932, it was 133, and in 1933, it was 127.

Mr. FACTOR: Are you going to examine on that, Mr. Sommerville?

By Mr. Sommerville:

Q. You refer to 133 men?—A. 127 in 1933, sir.

Q. Is that in Eastern Canada or is that throughout Canada?—A. Throughout Canada.

Q. Throughout Canada?—A. Yes.

Q. And they call upon the retail stores?—A. Yes, and the jobbers, anyone handling tobacco.

Q. And then, the orders that they get from the retail store, do they turn them over to the jobber?—A. Yes, those who buy through jobbers.

Q. What is the distinction in those who buy direct from you?—A. Well, the man who buys direct from us gets the same price as the jobber.

By Mr. Factor:

Q. What is that discount?—A. It is 10 per cent, on the average.

Q. So that the retailer who purchases direct from the jobber has to pay 10 per cent more?—A. Yes.

By Mr. Sommerville:

Q. You say the jobber gets an average of 10 per cent discount?—A. Yes.

Q. And some retailers get that?—A. Yes.

Q. And do your 5,000 retailers get that 10 per cent?—A. Yes.

Q. What is required to get into that class, because all retailers would like to get into it?—A. Well, they are all enumerated. Shall I go over them again?

Q. Those five?—A. Yes.

By Mr. Factor:

Q. Who determines whether they are possessed of those five qualifications? —A. Usually our branch manager.

Q. Your branch manager?—A. Yes, of which we have 11 in Canada.

Q. And does he notify the head office?—A. Yes.

Q. And then if he feels the retailer does not possess those qualifications, he cannot get merchandise direct?—A. That is right, he cannot.

Q. Is there any other qualification? Is there a condition that they are only to handle a limited percentage of other products?—A. No, sir.

Q. No such thing?—A. No, sir.

By Mr. Sommerville:

Q. I notice one thing is missing, in going through this list of five qualifications, and that is the quantity. Apparently you do not make that one of the conditions for sale to the retail trade?—A. We have different quantities in different territories.

Q. You have not intimated that in any of those five divisions that are referred to?—A. No, sir. The question of shipping expense and other things

enter into that. In Montreal, for example, we have our headquarters, and practically no quantity shipments.

Q. What do you mean, no quantity?—A. No minimum requirements.

The CHAIRMAN: Stipulated.

By Mr. Sommerville:

Q. Irrespective of the quantity they buy, a retailer in Montreal may get 10 per cent?—A. Practically so, yes.

Q. If your branch manager at Montreal decides that a retailer is to get into that class?—A. Yes.

By Mr. Factor:

Q. May I ask a question in regard to the qualification, merchandising ability. Would you consider a man who has been in the tobacco business for 19 years within that qualification?—A. Oh, it depends on his ability. He might be in business for 20 years, and yet we might consider that he did not have merchandising ability to qualify him.

Q. You say "Financial responsibility". What about the retailer who is able to pay you cash?—A. That is the last consideration, financial responsibility, because there are many dealers who would pay C.O.D.

Q. Well then, the retailer who wants to get within this preferred class, offers you cash for the merchandise, and in that case there is no financial responsibility involved?—A. No, sir.

Q. Why do you refuse to sell that retailer who offers you cash for the merchandise?—A. Because he probably has not got the other qualifications.

Q. In other words, you are the one who determines those qualifications?—A. Yes.

Q. You pass on the qualifications?—A. Yes.

Q. You see that these qualifications are possessed by all the retailers?—A. To the best of the ability of our managers, yes.

Q. What about the wholesale end of it?—A. The same thing applies.

Q. Would not—A. We have to consider the territory that the proposed wholesaler has to cover; whether we think it is adequately taken care of or whether it can stand another jobber.

Q. May I put this question rather bluntly to you? I have received, personally, and I suppose Mr. Sommerville has, many complaints from retailers whom I have investigated personally, and I know they are experienced merchants and are financially responsible, and I find they cannot get merchandise from you. Why is that?—A. Well sir, because we think they have not the other necessary qualifications.

Q. I beg your pardon?—A. We feel they have not the other necessary qualifications.

Q. What are they? "Size of community to be served". The city of Toronto is a pretty large community, is it not?—A. Yes, but communities are segregated.

By Mr. Young:

Q. What harm would it do you if they never sell the goods, as long as you got paid?—A. It would do our goods harm if our customers went in say, in six months time, and bought a package of cigarettes that were dry.

By the Chairman:

Q. Is this part of your system of orderly marketing?—A. Yes, sir.

Q. I wish you would explain it to the committee, because I think it would not be only interesting but helpful, if would make it clear to the committee just what the theory is upon which that system is based?—A. It is based on price maintenance.

Q. Yes?—A. Primarily.

Q. Elaborate that. In other words, justify your theory on that basis. I understand it thoroughly, but I think it would be a good idea to get it clear on the record.—A. Well, we feel sir, it is a bad business practice for either the wholesaler or the retailer to cut prices. In the first place, if the wholesaler cuts prices he probably in due time will fail. If the retailer cuts prices, probably the same thing would come about.

Q. You are referring now to the jobber end of the business, in which an individual will take an article, and use it as a loss leader?—A. Yes, sir.

Q. It is to avoid that practice that you have this system?—A. Yes, sir.

Q. Your position, as I understand it is, that it works satisfactorily, and at the same time does not injure the handler or the consumer?—A. Yes, sir.

By the Chairman:

Q. Now, there is one question which has been intimated before, it is this: if there is a bona fide dealer who wants to get your products, it is alleged (I do not say it is true because it is not in evidence, it is just alleged) that he is denied the right of securing your products unless he will, for instance, give it prominence in display over others. Now, that is a serious statement, or allegation.

Mr. Factor: It was in evidence, we had the evidence of the cigar manufacturer the other day.

The Chairman: I thought it was in evidence. That is quite true.

The Witness: To the best of my knowledge, sir, that is not true.

By the Chairman:

Q. Would you countenance it or permit it, if you knew it?—A. No, sir. All we ask is the display of our merchandise in proportion to the total business.

By Mr. Factor:

Q. This committee has received numerous complaints from dealers all over the country.—A. Probably because they want to get on our direct list and we won't sell them.

Q. No, irrespective of the direct list, allegating that you insist upon, in one case 80 per cent advertising?—A. I am sure I do not know, sir, that is news to me.

By Mr. Senn:

Q. Do you contract with each one of this preferred class?—A. No, sir.

Q. No signed contract?—A. No.

Mr. Factor: With whom?

Mr. Senn: The preferred class.

By Mr. Factor:

Q. Yes, the jobber has a signed contract, hasn't he?—A. Only amongst themselves. They agree amongst themselves on the maintenance of prices.

Mr. Sommerville: Just go ahead and let us hear your statement as to the reasons for this price maintenance.

The Chairman: You see Mr. Spafford, we are not as well posted in these details as you are; and the mere statement "price maintenance" does not always convey the full import of the theory.

By Mr. Senn:

Q. And I take it that that is one of the questions before you pass on an agent, as to whether they are following the requirements in regard to the display of your goods?—A. The branch manager.

Q. He visits these stores regularly?—A. I could not say regularly, he does periodically, as best he can.

Q. Is that the only thing that you require from these people?—A. Or the salesman who covers this ground?

Q. Is that the only requirement that you ask from this preferred class?—A. Yes.

Q. That they would give you a certain proportion of advertising and display?—A. Yes.

By Mr. Young:

Q. But, Mr. Spafford, you insist upon a share of the publicity or advertising in proportion to the share that you have of the business, and the bigger the share of the business that you have the bigger the share of publicity you want?—A. Yes.

Q. When you get 99 per cent, then the other fellow would only get one per cent of the advertising?—A. But I hope we never get 99 per cent.

Q. But once you get above 90 per cent there won't be much chance for the other fellow getting anywhere, for he will have to put his goods under the counter, as was said here the other day.

By Mr. Senn:

Q. Have you any figures showing the percentage of the whole?—A. They were given by Mr. Miller the other day.

By Mr. Sommerville:

Q. About 70 per cent?—A. Yes, sir.

By Mr. Senn:

Q. Among the preferred class?—A. No, of the total business in Canada.

Q. Among the preferred class, he must have a larger percentage?—A. I would not think so, no.

By Mr. Factor:

Q. In other words, Mr. Spafford, you control the number of retailers who can buy direct?—A. That is true.

Q. In the second place you control the number of wholesalers of tobacco?—A. That is true.

Q. And in the third place there is an agreement between the jobbers as to the maintenance of prices, and that is controlled?—A. That is true. We do not control that, that is voluntary on their part.

Q. Oh yes, I know; but if any jobber infringes any of the rules the association notifies you and he cannot get his supply?—A. That is judged by a committee elected by the jobbers themselves.

Q. Quite so, and if the investigating committee finds that a manager infringes any of the rules it notifies you and you refuse to supply him?—A. Correct.

Q. So you have the method of distribution pretty well controlled for yourselves, haven't you?—A. Yes, we have.

Q. And you say that is the best method?—A. So far as we know up to the present.

Q. For the Imperial Tobacco Company?—A. For the tobacco trade as a whole.

Q. You control 70 per cent of the tobacco business?—A. We control the business, we do not control the individual.

Q. But you control 70 per cent of the business?—A. Well, if I might be permitted at this point I would like to read one or two telegrams that I have here.

By Mr. Sommerville:

Q. Yes Mr. Spafford?—A. Just on this point that Mr. Factor brings up, here is a telegram from the President of the British Columbia Tobacco Company Jobbers' Association:—

> Jobbers and retailers are both necessary for equitable and economic distribution and reasonable profit must be assured only means of accomplishment in price maintenance stop tobacco products are being sold by both on closest possible margin commensurate with service Imperative that nothing interferes with price maintenance and present orderly method of distribution.

By Mr. Factor:

Q. What profit did the retailer make on a package of 20 cigarettes?—A. Which retailer, direct or indirect.

Q. The retailer who buys from the jobber?—A. Two and two-third cents.

Q. What does the jobber make on that?—A. He makes 9·99 per cent; they cost him $15\frac{2}{3}$ and he sells them for $17\frac{1}{3}$ cents.

Q. Tell me, Mr. Spafford, as a man of experience, do you expect the retailer to make any revenue on that margin of profit—the independent retailer, I do not mean the United Cigar Stores.

The CHAIRMAN: You would not object to their charging more.

By Mr. Factor:

Q. No, the price is fixed; they cannot charge more or less?—A. We had rather he did not charge more, and still we do not want him to charge less.

Q. I mean, in the last two days we have taken up the problem of the growers; there are hundreds of retailers who are absolutely complaining that they cannot make a living because of the market?—A. And at the same time we are putting our biggest effort out to keep these retailers from cutting prices. Right in Toronto I could name, yes, a dozen retailers, who have been selling 20-cent packages of cigarettes for 18 cents.

Q. But don't you think the profit to the jobber is rather out of proportion compared with the retailer?—A. No.

Q. You do not?—A. No.

By Mr. Sommerville:

Q. Let us get your basis: have you got your basis of sales here?—A. How do you mean, sir?

Q. You have a regular list of prices for jobbers; have you not got it in printed form as you give it to the jobbers?—A. Yes, sir.

Q. Let us have that. And that is a direct allowance to the jobber of approximately 10 per cent?—A. Yes, sir.

Q. And then the jobber sells to the retailer on approximately—what is the allowance to the retailer?—A. I would say from 13 per cent to 15 per cent, sir.

Q. From 13 to 15 per cent?—A. Yes, sir, the indirect retailer—that is the man we classify as buying from the jobber.

Q. Well then, how do you get $2\frac{1}{3}$ cents on a 20-cent package of cigarettes as a 13 to 15 per cent profit?

Mr. YOUNG: That is $18\frac{1}{2}$ per cent.

The CHAIRMAN: It costs him 17 something or other.

The WITNESS: It costs him 17·36.

By Mr. Sommerville:

Q. Yes, and he sells at 20 cents?—A. We take it on the selling price of 20 cents.

Q. And that makes 13 per cent?—A. About 13·20.

By Mr. Factor:

Q. What does the jobber get for selling?—A. 9·99 per cent.

Q. He sells them in volume. Then what does the retailer who buys direct from you make in the way of profit?—A. He makes 21·87.

Q. 21·87 per cent?—A. Yes, sir.

Q. On the sale price?—A. Yes, sir.

Mr. Factor: He gets approximately 10 per cent.

By Mr. Sommerville:

Q. Then it is a very distinct advantage to the retailer to be able to buy from you direct?—A. Yes, sir.

Q. And is that advantage used by you to require him to advertise your goods rather than those of rival companies?—A. Well, sir, in return for the privilege of buying direct, we expect co-operation.

Q. What do you mean by co-operation? Is that exclusion of the other fellow? No, sir.

Q. What does it mean?—A. We expect counter advertising. We expect to be able to put a window bill up on his window. We expect to trim his window periodically, and perhaps put a sign on the outside of the building.

By the Chairman:

Q. Put a wooden Indian up?—A. Yes, put a wooden Indian up, if we could find one.

Q. That is a little out of date, is it not?—A. Yes.

By Mr. Sommerville:

Q. What else?—A. I think that about covers the requirements.

Q. What about the man who buys indirectly through the jobber? Do you require the same thing from him?—A. We don't require it, but we ask it.

Q. You really expect it?—A. Well, he who expecteth little receiveth much. We try and get as much as we can, naturally, but we can't enforce it.

Q. You can't enforce it?—A. No.

Q. But don't you attempt to enforce it?—A. I would say the salesmen who did not attempt to enforce it, we would probably fire him.

Mr. Factor: I would not call that attempting, either in law or fact.

Mr. Sommerville: That is co-operation.

By Mr. Sommerville:

Q. What are the means you adopt to enforce this policy upon this retailer? —A. The personality of our salesman.

Q. The personality of your salesman. What else does he carry with him besides personality?—A. lot of advertising and sales helps and ideas to help the dealer get more business.

Q. We have had a great many complaints, Mr. Spafford, and I am sure you don't want any complaint on your merchandising methods?—A. No, we don't.

Q. We have had a great many complaints from coast to coast. Here is one of them:

> I have been buying merchandise from the Imperial Tobacco Company for over twenty-five years, and have always paid my drafts when due, and my credit rating at the present time is good; but because I do not display Imperial Tobacco products to a degree that it will be detrimental to other Canadian manufacturers, I have been refused any further of their goods.

What do you say as to that?—A. That sounds like Mr. Watson of Saint John.

Q. That is Mr. Watson of Saint John, and he encloses his correspondence for us. What do you say?—A. Well, we have known that gentleman for twenty-five or thirty years, and if I might read the latest report of one of our advertising supervisors, that will perhaps give you a whole picture of what we think of him.

Q. I don't care what you think of him. Is it a fact that you have refused to sell to him?

Mr. BELL: What is that man's name?

Mr. SOMMERVILLE: Edward P. Watson, King square and Sydney street, Saint John, New Brunswick.

By Mr. Sommerville:

Q. Is it a fact that you have refused to sell him your goods because he will not display Imperial Tobacco products to a degree that will be detrimental to other Canadian manufacturers?—A. No, that is not the reason.

Q. He goes on further:

> I have always tried in my business to use all tobacco companies the same, but am being penalized at the present time because I have tried to give the smaller tobacco companies' lines a share of my business.
>
> I am enclosing copies of my correspondence with the Imperial Tobacco Company to date. You will please note that in each instance they have referred me to Mr. Farry (their local branch manager) and he told me personally on May 1st that the Imperial Tobacco Company have closed their books to me.

Now, is it true that his business rating has been good for twenty-five years, that he has always paid his drafts?—A. Yes.

Q. Is he a direct buyer or an indirect buyer?—A. A direct buyer.

Q. He is a direct buyer. You won't even let him buy indirectly?—A. Oh, yes. We have no control over that.

Mr. FACTOR: That is, over the jobber.

By Mr. Sommerville:

Q. We will see about that, whether you have any control over the jobber or not. At any rate, you won't sell him direct. What is your reason?—A. For one reason, he has a record of being a price cutter. He has a record of supplying the trade at cut prices, and in every way being a very unsatisfactory and very difficult man to get along with.

Q. He says that the only reason that you have refused to sell to him has been because he would not display goods?—A. That is not so, sir.

Q. That is not so. Was your reason for cutting him off this time because he is a price cutter?—A. We had reason to believe that he was supplying other dealers at cut prices.

Q. Did you write and tell him that?—A. No; our manager, Mr. Farry, told him.

Q. What did he say to that?—A. Well, I think he used very profane language, and told Mr. Farry to get out of his store.

Q. Here is another one:

> We wish to draw your attention to the arbitrary methods of the Imperial Tobacco Company. We are running a wholesale and retail tobacco business in Saint John, and before they would sell us their products, they ordered us to give them both our windows for advertising purposes, and to display their goods only, in spite of the fact that we were under contract to another tobacco company for one of our windows, which contract

> we were forced to cancel under penalty of not being able to buy their goods direct.

What do you say as to that?—A. Well, I would have to know the case, sir.

Q. But you surely have had a lot of complaints, have you not?—A. I have a whole book of them here, yes, sir.

Q. Is this not a general complaint?—A. No.

Q. It is not a general complaint?—A. No.

Q. Do you approve of your traveller taking this position, that they must cancel their contract with another company?—A. I doubt very much if he did.

Q. But do you approve of it?—A. No.

Q. You disapprove of any such practice?—A. Yes.

Q. And if that were done, it was done entirely without your authority?—A. Yes.

Q. And it would not be permitted by your sales branch?—A. No, sir.

Q. That is a correct statement of your policy, is it Mr. Spafford?—A. Yes, sir.

Q. He says further:

> Most all tobacco stores doing business in Saint John are subject to the above conditions.

That is somebody else in Saint John, New Brunswick?—A. Well, I have a telegram here from what is reputed to be a leading retailer in Saint John; may I read it?

By Mr. Factor:

Q. What date is that?—A. May 13th, the lucky day.

Mr. FACTOR: That is to-day?

Mr. SOMMERVILLE: No, yesterday.

By Mr. Factor:

Q. Did you know of these complaints before the telegram came?—A. I knew of the Watson complaint, yes.

Q. Did you know of the Saint John complaint?—A. Well, Watson is in Saint John.

The CHAIRMAN: He does not give the name of that one.

By Mr. Senn:

Q. Were those telegrams solicited in any way?—A. Yes, they were. May I read a telegram from our sales manager. This a telegram sent out by the sales manager of our company on Sunday night:—

> As there is possibility of Mr. Spafford's and Imperial's attitude towards price maintenance and orderly merchanising in general being presented before Stevens commission would appreciate your telegraphing collect Earle Spafford care Chateur Laurier Ottawa to-night or Monday morning at latest honest opinion yourself and your associate on this subject.

By Mr. Sommerville:

Q. And these were sent out to those who were direct buyers from you in most of the provinces of Canada?—A. Retailers and wholesalers, yes, sir.

Q. Direct buyers?—A. Yes, sir.

Q. Let us have the telegram from Saint John?—A. This is the telegram we received from Saint John:—

> Have always felt that the Imperial's stand for price maintenance and proper merchandising methods was the steadying influence of the retail

> trade in this province and trust your policy will not change. Confidently feel that I am voicing the opinion of the better retailers in New Brunswick and hope you may continue the good work.

Q. That is price maintenance?—A. Yes, sir, and orderly merchandising.

By Mr. Factor:

Q. Well, is this ordering a man to give up his windows orderly merchandising?—A. I don't believe we did, sir.

Q. I have received thousands of complaints, Mr. Spafford, from people who refused to display your merchandising?—A. Well, for every complaint you have received I could give fifty cases.

By Mr. Sommerville:

Q. Of what?—A. In favour of our policy.

Q. Of what?—A. Of price maintenance.

Q. We are not dealing with price maintenance. Does price maintenance include intimidation?—A. Well, with some class of dealers, yes.

By Mr. Factor:

Q. In other words, you believe in the policy of intimidation with some class of dealers?—A. Well, if a dealer will not maintain prices.

Q. Your price maintenance policy.

By Mr. Sommerville:

Q. Let me read you another.

The CHAIRMAN: Mr. Sommerville, I think Mr. Spafford should explain his last statement. Just make that clear.

By Mr. Sommerville:

Q. Yes, I want to get that clear. You are referring to price maintenance? —A. Yes, sir.

Q. And you refer to the fact that it may be necessary to use intimidation on a price cutter?—A. Yes, sir. We would say to a retailer who was buying our goods, when he started to cut the price, if you continue to do that we will not supply you with our goods.

Q. That is what you mean by the question of intimidation?—A. Yes, sir.

Q. You would cut him off?—A. Yes, sir.

Q. And that is part of the plan?—A. Of price control.

Q. Followed in some cases in price maintenance.

The CHAIRMAN: It might be better to use the word "disciplining" instead of using the word "intimidation." Intimidation has a rather invidious meaning.

By Mr. Sommerville:

Q. Supposing a man maintains prices, do you approve of your travellers saying to a man that he must take down certain displays of other products and put your displays in place or he will not get your goods?—A. No, sir.

Q. You do not approve of that?—A. No, sir.

Q. You have heard of those complaints?—A. Yes, sir.

Q. Very frequently?—A. No, sir.

Q. We have had an awful lot of them in this committee, Mr. Spafford, and it has been from coast to coast.

By Mr. Factor:

Q. Yes. Let me read you a few:

> Should a merchant display competitive lines of cigars, cigarettes and tobaccos, the Imperial Tobacco Company will threaten him by saying that it will no longer sell directly to him. It will intimidate him in the

same manner should he allow other companies to place advertising matter in his shop window or on his building, or on his vehicles.

By Mr. Sommerville:

Q. Now, is that right?—A. That is not our policy.

Q. Well, whether or not it is your policy, is that what is done by your travellers?—A. Not to the best of my knowledge.

By Mr. Factor:

Q. Well, is it done by the travellers of the jobbers that you control?—A. No, it is not.

By Mr. Young:

Q. What do you do when you get a complaint like that?—A. We usually go and see the man, send our branch manager to see him.

Q. And what results do you get?—A. Sometimes favourable, sometimes unfavourable.

Q. What do you call favourable results?—A. Well, we try to pacify him, we try to leave him in a happy frame of mind. Regarding Mr. Watson of Saint John, we sent one of our men from Montreal down to see him last week, and I understand that he reported over the telephone yesterday that Mr. Watson is quite happy.

By Mr. Sommerville:

Q. Then you have allowed him to use the windows for other manufacturers, have you?—A. I have not the details, sir.

Q. That was the only complaint he had. It was not a question of price and it was not a question of his credit, but a question of his using his window in the way that he saw fit to sell whatever goods he wanted.—A. Yes, sir, and I said that was not our reason for taking him off the list.

Q. Then what do you think of this one, here is another one from Montreal:—

> Should a merchant allow a company to display its own goods in one of his windows, the Imperial Tobacco Company immediately sends a representative to the store and he resorts to every possible means to prevent him from favouring any other manufacturer. It also requires the distributors to supply it with a monthly report covering the competitive lines sold by each one.

A. No, sir.

Q. First of all, with reference to your representative going to his store and using every possible means to prevent him from favouring any other manufacturer in his advertising.—A. Well, he might go to the retailer and try to persuade him to continue to give us his window, or whatever form the advertising was.

Q. And would the persuasion take the form of saying "You cannot have our goods unless you do"?—A. No, sir.

Q. Are you sure of that?—A. Yes, sir. I cannot put words in the mouths of our representatives.

Q. No, but you can take them out.—A. Not after they have been said.

Mr. Factor: Prevention is always the best possible cure.

The Witness: That is what we try to do, sir. That is not our policy.

By Mr. Factor:

Q. I personally have had many complaints that that is the case, Mr. Spafford.

By the Chairman:

Q. Let me read, if I may interrupt you, Mr. Sommerville, and I read this because it is a matter of public record. This is from the evidence the other day of Mr. Victor Chartrand, at page 1698 and 1699; this is his sworn statement:—

> Q. What happened to reduce your output?—A. Because of the influence or pressure exerted by the Imperial Tobacco Company on our jobbers, retailers and dealers; our production is lessened.
>
> Q. Will you please explain what you mean by influence?—A. From what the jobbers state. The jobbers say that the Imperial Tobacco Company more or less compel them to carry the Imperial Tobacco Company line of goods.
>
> Q. We want to get that clear. Did the jobbers inform you that they cannot buy your stock because the Imperial Company objects to them carrying other than Imperial Tobacco Company's stock?—A. They do not tell us openly but they give us that impression, in more or less veiled terms.
>
> Q. And they will refuse to buy?—A. Yes, they refuse to buy.

And then there is a further question:—

> Q. And your production has been reduced from 5,000,000 or 6,000,000 five years ago to a million and a half last year?—A. Yes, sir.
>
> *By Mr. Factor:*
>
> Q. Do you have any difficulty in advertising your product in competition with the Imperial product, that is, difficulty in having your products advertised in competition with Imperial?—A. Certainly.
>
> *By Mr. Sommerville:*
>
> Q. What are the difficulties?—A. One difficulty is, that when we put up any advertisements or posters they are removed. We are told that the travellers who visit these different shops to sell place their own posters over ours.
>
> Q. That is, the posters you are referring to, the circulars or the advertising you are referring to is advertising in the stores of the merchants that are selling your goods?—A. Yes. These signs or posters are of metal, and they might be placed on the inside of the store or outside, or on doors, or around the premises within and without.

Now, the indication by that evidence is, that your representatives use rather rough methods by which, shall I say, to prejudice or reduce the opportunity of doing business with your competitor. What have you to say regarding that, Mr. Spafford?—A. I do not know what date that goes back to, sir.

By Mr. Sommerville:

Q. That exists continuously for several years.

By the Chairman:

Q. I can tell you by memory, his sales dropped from seven million to one million one hundred thousand since 1929 or 1930. It is all during the last three years.—A. Where is his plant, sir?

Mr. SOMMERVILLE: L'Epiphanie.

The WITNESS: I think the reason he lost his business was that we went down and opened a factory there and paid the workers a dollar more a thousand for the cigars.

By Mr. Factor:

Q. The reason is, you tried to dictate terms to him and he would not sell. Now, is that right?—A. That is before my time with the Imperial.

By the Chairman:

Q. That is not the point I am raising, Mr. Spafford. I am not making any comment on this other than to say here is a sworn statement. Now, what have you got to say about it?—A. I would say within the last three years, which is the period I have been with the Imperial Tobacco Company, that the statement he makes there is absolutely contrary to our policy.

Q. And would you go further and say that would not be permitted by yourself?—A. And would not be permitted to-day under any circumstances.

By Mr. Factor:

Q. Just let me read you another typical complaint:—

> Should a merchant allow a company to display its own goods in one of its windows, the Imperial Tobacco Company immediately sends a representative to the store and he resorts to every possible means to prevent him from favouring any other manufacturer. It also requires the distributors to supply it with a monthly report covering the competitive lines sold by each one and will even send employees to examine their vehicles and trucks in order to see what lines other than their own are contained therein.

A.—I say that is not what our instructions are.

Q. Oh yes, I know, but that is not answering my question.—A. There are three points there. Would you ask the three questions you would like answered.

Q. The first complaint is, that the representative of the Imperial Tobacco Company resorts to every possible means to prevent him from favouring any other manufacturer.—A. Not to prevent. I would say to persuade.

Q. Oh I see, you draw this fine line of distinction?—A. Why not?

Q. What form of persuasion takes place?—A. Salesmanship.

Q. Do you think that we are children here, Mr. Spafford, to try to answer in that way?

By Mr. Sommerville:

Q. Do you know that they threatened to refuse to allow Imperial goods to be sold unless they fell in line with the salesman's request?—A. No, sir.

Q. You say not?—A. I say not.

Q. Let me give you this one, and this is right in your own home town of Montreal: does your representative go to a retailer and require the retailer to give him a statement of the amount of the other fellow's goods that that retailer is selling?—A. Not on our request. He may on his own initiative do that, sir.

Q. I would not expect you would send out a request every time. Do you allow any such thing as that to go on in your sales organization?—A. Yes. We know it goes on. We do not ask them to do it, no.

Q. But, Mr. Spafford, when that is accompanied with the statement that they will not get your goods unless they supply that information, do you not think that is intimidation?—A. I doubt if that statement is made, sir.

Q. That is made; and it was made in the presence of other manufacturers who were in the very shop and heard it.—A. That is a surprise to me, sir.

Q. But it was brought to the attention of the Imperial Tobacco Company?—A. I have not heard of it.

Q. Now, that sort of thing we are told is going on all over the country?—A. Well, sir, I can show you telegrams from jobbers and retailers from coast to coast.

Q. On price maintenance, quite?—A. No, on the general attitude of the Imperial Tobacco Company sales and advertising policies.

Q. Let me give you this one: within the last two weeks, since we began the enquiry on tobacco, one manufacturer who put up his literature in the city of Hull, just across the river, found within three hours that 60 per cent of it had been destroyed or covered up by your man. Do you approve of that?—A. No, sir.

Q. And that is within two weeks in the city of Hull while this inquiry was going on?—A. We absolutely do not countenance that.

Q. What steps do you take to prevent this sort of thing, because the complaint is so general?—A. I have never heard of that case.

Q. It is two now. This is within the last two weeks; but I have it recorded from coast to coast that this is the regular practice?—A. I do not admit that, sir; in fact, I deny it.

Q. Then, Mr. Spafford, what about the practice of going into a store and saying, "you had better take those cigarettes off the showcase and put them under the cases if you want to get our goods." Have you heard of that?—A. I have heard it reported.

Q. Do you approve of that practice?—A. No, sir.

Q. Why does it go on from day to day and year to year from coast to coast?—A. I do not think it does, sir.

By the Chairman:

Q. Did you ever issue instructions, Mr. Spafford, that such practice was not to be indulged in by your salesmen?—A. Yes, sir; instructions have gone out, and I believe we could produce them.

Q. Have you disciplined the salesman who has been reported as having resorted to that practice?—A. I could not name any specific case.

By Mr. Factor:

Q. Did you ever cut out a single jobber whose representative was guilty of tactics of that kind?—A. I have never heard of any jobber salesman being guilty of this practice.

Q. I beg your pardon?—A. I have never heard of any jobber's salesman being guilty of this practice.

Q. There are hundreds of complaints?—A. You gentleman have all the complaints in your hands. If you had wished to be fair with me I think you might have warned me and I might have got my files which we probably have on every one of these cases.

By Mr. Sommerville:

Q. Well, then, you must know about them if you have your files?—A. We probably do.

Q. Why don't you tell me about them?—A. You are tackling me—

The CHAIRMAN: Of course, he has not got his files with him, and he cannot recall those cases, and we are not giving him the names of every one. It might be well to turn over some of these.

Mr. FACTOR: It is not a matter of an individual name or an individual firm, it is a question of a practice having been established in merchandising their products which is a most vicious thing, and I would like this witness to enlighten us.

The WITNESS: These are cases, and if they are complaints that you can make I can give you 50 or 100 dealers who are perfectly happy and satisfied with our method of merchandising, our demands upon them, and if I could place these telegrams on the record I think they would substantiate what I have said.

By Mr. Sommerville:

Q. I haven't a doubt in the world that you could produce a thousand telegrams in support of a price maintenance plan, but can you provide one telegram in support of a program or of any of the practices I have referred to as complaints from coast to coast?—A. Well, sir, they do not refer to these practices, but they say they are absolutely satisfied with our attitude towards the trade and the general administration of our business.

Q. Wholesalers and retailers?—A. Retailers.

The Committee adjourned to meet Tuesday, May 15, at 11 o'clock, a.m.

HOUSE OF COMMONS, ROOM 368,

May 15, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 a.m., the Hon. H. H. Stevens presiding.

Mr. Norman Sommerville, K.C., of Toronto, and Mr. W. W. Parry, K.C., of Toronto, appeared as counsel for the committee.

The CHAIRMAN: Order, gentlemen. We have before us the minutes of yesterday, which recite the filing of a certain number of exhibits and the examination of certain witnesses. The minutes will be declared approved.

I also have, in response to a request by the committee of a few days ago, a file of petitions received by the Department of Finance in opposition to a tax on raw leaf tobacco in the hands of the producer, I presume. It is from the province of Quebec. It will be attached to Exhibit No. 120, which has already been filed, as it is merely an enlargement of that subject.

EARL SPAFFORD, examination resumed.

The WITNESS: Mr. Chairman, may I make a statement?

The CHAIRMAN: Yes, Mr. Spafford.

The WITNESS: Yesterday, we were accused of using unfair methods of merchandising. I would like, if I may, to read a letter from Mr. Tingle. Mr. Tingle is a director of our company, in charge of our outside advertising. He says:—

> . . . I can certify from my knowledge that it has always been the company's policy to respect other manufacturers' advertising, and we have asserted this on many occasions to our representatives.
>
> There have been times when complaints have been made to us that an infraction had been made of this policy, and in all cases we took steps immediately to reprimand if the fault was with us; but from my experience I have found that an over-zealous representative of any company is apt at times to outstep the bounds of propriety, and we have had as many occasions to complain about other manufacturers as we have had to answer complaints which have been made to us.

By Mr. Sommerville:

Q. Mr. Tingle is the man in charge of the United Cigar Stores, is he?—A. No, he is a director of our company, in charge of our outside advertising representatives.

Q. What was his former association? With which group of companies was it?—A. Well, he has been twenty-five years with the Imperial Tobacco Company.

Q. Was he at one time connected with the United Cigar Stores?—A. No; and he is still with the Imperial.

By the Chairman:

Q. You have some telegrams that you wished to file last night?—A. Yes.

The CHAIRMAN: What I will do, Mr. Spafford, is this: if you will hand me the telegrams, I will just read out the names. They are virtually, I would imagine, all the same in the file. There is no need to take them individually.

The WITNESS: Well, they represent about 600 jobbers; and the one from the city of Montreal where we have about 6,000 retailers, while I cannot say it represents the opinion of every one of them, it represents the opinion of every, what we consider, honest and reputable retailer.

By Mr. Factor:

Q. You mean of every retailer to whom you sell direct?—A. No, sir.

Q. Are there any independents there?—A. Well, it is the secretary of the retailers association.

The CHAIRMAN: I will read the names. I think it is only fair to the company that these should be read. I am not going to read all the telegrams. The first is John C. Conway, of Conways Limited, Calgary, Alberta.

Mr. EDWARDS: What is the gist of that?

The CHAIRMAN: I was just going to say that these telegrams are from various parts of Canada in response to a message sent out by Mr. Spafford. I will read this first one. I think the others are similar. This first one reads as follows:—

> Tobacco and confectionery jobbers Calgary and Alberta district deeply appreciate all tobacco manufacturers efforts to maintain price for both jobbers and retailers. It is our earnest wish present investigation will not disturb orderly marketing of our merchandise. Without your assistance in maintaining price, large mail order jobbing houses would seriously jeopardize our business and capital invested. My personal opinion from twenty years experience is that if tobacco manufacturers had not assisted us to maintain prices we could not have continued in business.

This is similar to other wires that were received that were read yesterday, and I understand that practically all of them have about the same theme. Is that not so, Mr. Spafford?

The WITNESS: Yes.

Mr. FACTOR: Of course, the complaints that we are investigating now are not so much in regard to the maintenance of prices. It is the question of refusing to sell.

The CHAIRMAN: You are quite right, Mr. Factor, and we will proceed with that. But in my opinion it is only fair to the company that we should permit them to at least present these telegrams.

Mr. FACTOR: Quite so.

The CHAIRMAN: I will not read them. I will read the names. The first one I have read, from John C. Conway of Conways Limited in Calgary. The next is from Col. P. E. Belanger, Montreal.

The WITNESS: Secretary of the retailers association.

The CHAIRMAN: Then we have one from O. W. Rorke, secretary of the Montreal Tobacco Retailers Association; H. B. McKelvie, president of the B.C. Tobacco and Candy Jobbers Association, Vancouver; D. R. Butt, Kelowna, B.C.; Western Canada Jobbers Association, Bruce Flavin, president, Edmonton, Alberta; Harry Smith, of Harry's News and Tobacco Shops of Montreal.

The WITNESS: Calgary, sir.

The CHAIRMAN: It is dated at Montreal.

The WITNESS: Yes, he was in Montreal, but his place of business is in Calgary.

The CHAIRMAN: That is right—Boston Hat Works and News Company, Calgary; but it is dated at Montreal. Then there is one from B. J. Beveridge, secretary of the Northern Saskatchewan Jobbers Association, Saskatoon; Southern Saskatchewan Tobacco Jobbers Association, Regina; Manitoba To-

bacco Jobbers Association, Winnipeg, thirty jobbers; J. P. Laberge, Verdun; Thomas Burns, Quebec; Edgar Langlois, Quebec; Chevalier & Pauze, wholesale grocers, Joliette; Cyrille Labelle & Company, Sorel; Royal Cigar Company, R. P. Helsby, Halifax; G. A. McDonald, Halifax; Ontario Wholesale Tobacco Distributors, Toronto; National Grocers Company Limited, Cornwall Branch, Cornwall, Ontario; the Ottawa Retail Tobacco Merchants Association, Bert Aitkens, W. H. Irvine and T. A. Ritchie, Ottawa; Ottawa and Hull Wholesale Tobacco Jobbers Association, A. E. Provost, M. Loeb, H. Aubry, Ottawa; Salois Limited, Sherbrooke.

Mr. Factor: Most of them are from jobbers?

The Chairman: Jobbers and retailers' associations. They will be filed as Exhibit No. 142.

(Telegrams, filed and marked Exhibit No. 142.)

Mr. Edwards: They all deal with the idea of price maintenance?

The Chairman: Yes.

Mr. Edwards: Nothing dealing with the spread between jobber and retailer?

The Chairman: No; everyone, as far as I can see, was referring to price maintenance. Is that right, Mr. Spafford?

The Witness: Well, and the general policy of the Imperial Tobacco Company.

By Mr. Sommerville:

Q. Mr. Spafford, do you have any trouble with regard to price cutting on the part of chain stores or departmental stores?—A. Yes and no. Only last week we cut off Simpson's of Toronto and Montreal for running a deal which we considered similar to price cutting.

Q. What would that be, giving premiums?—A. Well, they gave a cigarette rolling device with a tin of tobacco. In other words, if the tin of tobacco sold ordinarily say at 50 cents, and the cigarette rolling device at 20 cents, making a total value of 70 cents, they would offer that perhaps at 62 cents, the combination.

Q. Have you had any trouble with the chain stores using tobacco as loss leaders?—A. Yes, sir.

By Mr. Senn:

Q. In what way?—A. Well, they will take cheap brands and advertise them at a very low price—we think in some cases practically at cost,—in order to get people into their stores.

By Mr. Young:

Q. Your brands?—A. No, sir.

Q. Not your brands?—A. No, sir.

By Mr. Sommerville:

Q. If they advertise your brands, they don't get them again?—A. That is right.

By Mr. Senn:

Q. What action have you taken in regard to the use of other brands?—A. There is the case of Simpsons. We cut them off the list.

Q. Was it your tobacco?—A. No.

By Mr. Young:

Q. Do you cut them off your list if they sell some other brands cheaper?—A. Yes.

Mr. Factor: It is a great business.

The Witness: If it is below the advertised price. In other words, all we ask a dealer to do, is this, if he buys a line of merchandise from another manufacturer, if he says that line is 59 cents for a half pound tin, so long as he sticks to that basis, we are quite satisfied.

By the Chairman:

Q. That is the very essence of the price maintenance system, is it not?—A. Yes.

By Mr. Sommerville:

Q. Do you apply this method of discipline to all firms that break this price maintenance plan?—A. Yes.

Q. Whether they buy your own goods or those of other manufacturers that are associated with you in maintaining a price?—A. Yes.

By Mr. Young:

Q. Are there other manufacturers associated with you in maintaining a price?—A. No, sir; only that I believe that most of them believe in it as a principle.

Q. Has any attempt been made to get them together to maintain a price?—A. In Montreal they had a meeting not long ago which the manufacturers attended, or the retailers of the manufacturers; and the manufacturers have agreed separately to assist the retail association in maintaining prices; and I think that happened in Toronto, too.

Q. Will you kindly explain that expression "They all agreed separately"?—A. Yes. That is exactly what I mean.

By Mr. Edwards:

Q. In other words, you filed your selling price?—A. Yes.

Q. Each individual filed his selling price?—A. Yes.

Q. No collusion there, no combination?—A. No, sir.

Mr. Factor: It goes farther than that.

By Mr. Factor:

Q. It is not a fact that the jobbers of your product enter into this agreement? Look at this?—A. I don't know which one you mean.

Q. Just look at it (handing to witness)?—A. Yes, I will be very pleased to. Yes, that is the recognized agreement; but these are not our jobbers any more than they are anybody's else's.

Q. I quite understand that, but they are the jobbers dealing exclusively with your products?—A. Not exclusively.

Q. No, not exclusively?—A. With anybody else's products.

Mr. Factor: I think perhaps this had better be put in as an exhibit, Mr. Sommerville.

Mr. Sommerville: Yes.

Mr. Factor: This is an agreement that the jobbers enter into collectively, to maintain prices.

Mr. Sommerville: In Ontario. Perhaps we will put it in.

The Chairman: The telegrams were No. 142.

By Mr. Sommerville:

Q. As part of your system of distribution, Mr. Spafford, the Imperial Tobacco Company are interested in seeing that there are jobbers' associations in each province?—A. Yes, for orderly merchandising.

Q. And with the assistance of the Imperial Tobacco Company and others—A. And others.

Q. And other manufacturers?—A. Yes.

Q. These jobbers associations are organized in each province?—A. Yes.

Q. And they do exist in all the provinces of Canada?—A. No, sir.

Q. In what provinces do they not exist?—A. In the maritimes.

Q. They exist from Quebec to British Columbia?—A. Yes.

Q. And I presume they are all run upon the lines indicated in the agreement that is submitted in your brief?—A. Yes. There are one or two clauses that might vary, but the substance is the same.

Q. These jobbing associations are supported in their merchandising methods by the manufacturers?—A. Yes.

Q. Does the Imperial Tobacco Company contribute to the funds to pay the salary of the secretary of the association?—A. No, sir.

Q. Well, does it contribute funds to the association?—A. We have at times, yes.

Q. Does it do it regularly?—A. No, sir.

Q. It does not do it regularly?—A. No.

Q. It makes no contribution towards the amount that may be used for the salary of the secretary?—A. No, sir.

By Mr. Factor:

Q. May I interrupt, just here—do you know Mr. J. J. Ivy?—A. I know him very well.

Q. What position does he occupy?—A. He is secretary of the Ontario Wholesale Tobacco Association.

Q. Who pays his salary?—A. The jobbers who belong to the association, the members of the association.

Q. Have you ever contributed towards the payment of his salary?—A. No. We have contributed to the association.

Q. And part of that went in payment of his salary?—A. I don't know how they used it.

By Mr. Sommerville:

Q. In what years did you make that contribution to the jobbers' association? Is it not a regular thing, Mr. Spafford?—A. No, sir. If they get hard up and some of the members are behind in their payments, why, they call on us, and I believe they call on other manufacturers. We are not alone in subscribing.

By Mr. Factor:

Q. Does Mr. Ivy report regularly to you as to the activities of the association?—A. He does not. He reports to his committee.

Q. And the committee reports to you?—A. They do not, except if we should happen to meet one of them we ask them how things are getting along; they are not obligated or asked to report to us at any time.

Q. But they do report any infringement by any one of the jobbers?—A. That is their duty.

Q. And then you cut off the jobber from supply?—A. Depending upon the nature of the committee's recommendation.

By Mr. Sommerville:

Q. Well then, on this basis the jobbers' association in each province is organized.—A. Yes, sir.

Q. And this one refers to the Ontario Wholesale Tobacco Distributors?—A. Yes, sir.

Q. That is what it is called?—A. Yes, sir.

Q. This reads as follows:—

> In consideration of our being or becoming a member of the Ontario Wholesale Tobacco Distributors and of enjoying the privilege of buying direct from tobacco manufacturers, we agree with the said Ontario Wholesale Tobacco Distributors and each and every member thereof:—
>
> 1. Not to sell tobacco, snuff, cigarettes or little cigars at prices less than those respectively named and set out in the lists furnished by tobacco manufacturers from time to time.
> 2. Not to allow a discount in any shape or form on any of the lines above mentioned.
> 3. Not to allow any cash rebate to any parties purchasing from us or to any of their employees.
> 4. Not to give gratis goods of any kind which would be the equivalent of a discount.
> 5. Not to give a discount on any line of goods, part of which discount might be applied to any of the lines above mentioned; and when at any time giving a discount on other goods, the lines above mentioned will not be included, but such lines will at all times and under all conditions be sold at net thirty days from statement date, such statement to be issued at least once each month, with no discount for prepayment or otherwise.
> 6. All sales of these lines to be on the above basis with no exception of any kind to jobbers or retailers.
> 7. It is agreed and understood that we will be responsible for the action of our travellers and employees, and agree that all infringements or irregularities by them of this agreement shall be the same as if committed by us.
> 8. We agree and approve of the appointment of an investigating committee and of the powers, privileges and duties of said investigating committee as set out in the endorsement on the back of this agreement, and agree to be bound by the decision thereunder.
> 9. We agree that violations of this agreement by us will involve our being supplied by tobacco manufacturers only at jobbers' resale prices for a period to be decided upon by the Investigating Committee not exceeding three months for first offence, and hereby agree and consent to the manufacturers acting upon receipt of the report and recommendation of the Investigating Committee.
> 10. This agreement is entered into with the sole purpose of bettering trade agreements in regard to the above mentioned lines.

And then that is signed by the jobber?—A. Yes, sir.

Q. Now, if a jobber does not sign this he does not become a member of the association?—A. No, sir.

Q. And then the manufacturers do not deal with that jobber?—A. Oh yes we do, sir, so long as he maintains prices. We have one of the largest distributing houses in western Canada—Macdonald Consolidated; they are not members of the Jobbers' Association, but they maintain prices, and we sell them our goods.

Q. Yes, but that is the exception; the general rule is— —A. Yes, sir.

Q. That is to say, if a man wanted to start in the jobbing business in the Province of Ontario to-morrow, had his truck and his equipment, and was going out to convass trade, he could not get your goods?—A. Yes he could, sir.

Q. He could?—A. Yes, sir.

Q. How is that?—A. We cannot say to a jobber you must join the association. All we can say to him is you must maintain our prices.

Q. Yes?—A. And it is up to the jobbers themselves to sell this jobber on the idea of becoming a member.

Q. Well now, is it not a fact that you have cut off jobbers who would not sign and join up with the Ontario Wholesale Tobacco Distributors?—A. Not for that specific reason.

Q. Not for that specific reason?—A. No, sir.

Q. Well, we have a number of complaints of that character.—A. I would be very pleased to give you the history of any complaint. You are speaking of generalities. If you can give me the names of them I can produce satisfactory reasons why we have not sold them.

Q. Well, the generality of it was such that I thought at once that it was a fact that you helped the Ontario Wholesale Tobacco Distributors by refusing to sell goods to those who would refuse to join their association?—A. No, that is not the case, sir.

By Mr. Edwards:

Q. Does the independent jobber purchase his supplies on the same basis as the association jobber?—A. When you say "independent" you mean?

Q. I mean one who is not a member of the association?—A. Yes, sir.

By Mr. Sommerville:

Q. Now then, on this same agreement, and forming part of it, are the Formation, Powers and Duties of Investigating Committee:—

> 1. The Investigating Committee shall be composed of three wholesale grocers and three wholesale tobacconists. The committee is at present constituted of the following wholesale grocers:—
>
> T. H. Kinnear of National Grocers Co. Ltd., Toronto; F. R. Parnell of F. R. Parnell Co. Ltd., St. Catharines, Ont.; J. Watson Young of Elliott, Marr & Co., Ltd., London, Ont., and in the absence or inability to act of any of the above named, then of H. L. McNally of National Grocers Co., Ltd., Toronto, or Charles Watt of Geo. Watt & Sons, Ltd., Brantford, or Allan Gilmour, of Gilmour & Co., Brockville, and of the following wholesale tobacconists:—
>
> Thomas McPhail of McPhail Bros., Brantford, Ont.; Jeremiah Gibbs, Hamilton, and M. M. Auerbach of Consumers Wholesale Tobacconists and Importers, Toronto, and in the absence of or inability to act of any of the above named, then of B. McAuley of McAuley Bros., Toronto, or J. J. MacCallum, Kitchener, Ont., or E. J. Harris, 83 York Street, Toronto.
>
> 2. The committee shall make enquiry into all complaints of alleged violations of the agreement.
>
> 3. The enquiry or investigation shall be made in such manner as may be approved by the committee, who may employ an agent or agents to interview witnesses and obtain information regarding the said complaints, and may act on the information so obtained, but before so acting the party charged as having violated the agreement shall be afforded an opportunity of appearing before the committee in answer to said complaint.
>
> 4. If, in the opinion of a majority of the committee, a violation of the agreement has occurred, the committee shall make a report of its finding to that effect, together with a recommendation as to the penalties to be inflicted, which report and recommendation shall forthwith be forwarded to the Tobacco Manufacturers.
>
> 5. In case the party being investigated is represented on the then existing committee, that member of the committee shall, for the time being, withdraw and in the investigation of that particular case, be replaced by another member chosen by the remaining members.

6. When any members' connection with the committee ceases from any cause, his place shall be filled by vote of the remaining members.

Now, that is the general machinery that is adopted for the functioning of the Ontario Wholesale Tobacco Distributors?—A. Yes, sir. I understand they had a meeting in Toronto last week, and I understand there was some change made in the personnel.

Q. But that is the general principle?—A. Yes, sir.

By Mr. Senn:

Q. Do you assign any particular territory to any jobber?—A. No, sir.

Q. And two or more jobbers can canvass the same territory?—A. Yes, sir.

Q. Well, I would like to know very much just what are your reasons for refusing certain applicants.—A. Because the chief reason is, that we believe in that case there are sufficient jobbers in that territory to take care of the trade, and if other jobbers are permitted, or if we put them on the list to cover the same territory, competition will probably be so keen that it will lead to price cutting.

Q. Well, I know of certain complaints that have been made just along that line.—A. I will be very glad to give any complaint my personal attention.

Q. I will hand you the name later.—A. All right, sir.

By Mr. Factor:

Q. That is not the principle, it is the system that we are trying to ascertain, the system that prevails, whether that system is for the good and to the advantage of the people as a whole, not to the Imperial Tobacco Company.—A. Well, sir, of course my opinion is that that is the right system, but who shall judge as to whether it is or not I cannot say.

Q. I quite see your argument about distributing your products with the jobbers perhaps, but take in the last three or four years people have been going through a depression and suffer a great deal. Now, you maintain retail stores in Toronto?—A. Yes, at a considerable loss, too.

Q. Yes. Now, there are independent retailers there that you are forcing to go to the jobbers and pay 10 per cent more for their goods.—A. Mr. Factor, may I ask you a question: Would you like us to sell every retailer in Canada direct?

Q. I certainly would have liked to see you, especially in the last three years of depression, helping out the independent retailer instead of asking him to pay 10 per cent more for his product and enable him to make a little money. —A. Would you have us sell to every retailer direct?

Q. How many jobbers have you got in Toronto?

Mr. SOMMERVILLE: 59 I think it is.

The WITNESS: Yes, sir.

By Mr. Sommerville:

Q. And 5,000 retailers?—A. No, sir, 3,000.

By Mr. Factor:

Q. And how many of the independent retailers are able to maintain a living with the margin of profit that they are getting when they have to pay 10 per cent more for their product?—A. They would maintain a living if they did not cut prices.

Q. I am talking about the man that maintains prices.—A. He maintains a living.

Q. On a margin of $2\frac{2}{3}$ cents?—A. Talking percentage.

Mr. SOMMERVILLE: 13 per cent.

By Mr. Factor:

Q. What position is he in to compete with the man that buys from the jobbers on the basis of 10 per cent less for his goods?—A. Compete in what way?

Q. Buying direct from the manufacturer?—A. Competing in what way?

Q. In selling his merchandise?—A. Well, he has a certain clientele that he serves.

Q. Yes, I know, but the man that has to pay 10 per cent more for his merchandise has got the same overhead as the man that buys direct.—A. No, very seldom so.

Q. Take an ordinary retailer that buys from the manufacturers direct, he pays 10 per cent less?—A. That is right.

Q. But the other retailer who buys from the jobber pays 10 per cent more? —A. That is right.

Q. Well then, the profit of the independent retailer is 10 per cent less?—A. Well, if he has sufficient volume to warrant his buying direct he would get the 10 per cent.

By Mr. Edwards:

Q. Mr. Spafford, is not that plan followed the same as it is with any other line of business? It is the convenience which the wholesale distributor gives to the man who buys a small quantity every day and who is not in the position to pay express charges and so forth?—A. That is true, sir.

Q. And that is why the 10 per cent is there?—A. Yes, sir.

Q. For the convenience of the small retailer?—A. Yes, sir.

By Mr. Senn:

Q. You have those jobbers within the association checking up the operations of the jobbers association. Have you any similar check up on the retailers who are getting this 10 per cent cut, any system of check up on their operations? —A. Well, only through our own representatives.

Q. It would not be nearly so efficient as the other, would it?—A. We know immediately a retailer cuts prices. I mean, if he is a direct account of ours, or if he is not, we know he is cutting prices; he must do it openly.

By Mr. Sommerville:

Q. Well now, Mr. Spafford, in addition to this jobbers association you have in Quebec, Ontario and Manitoba your own jobbers; you have got your own jobbers?—A. Yes, sir.

Q. Kirk in Hamilton?—A. Yes, sir.

Q. And Scales & Roberts in Toronto?—A. Yes, sir.

Q. And Fortier in Montreal?—A. Yes, sir.

Q. And then you have your commercial travellers out selling your goods? —A. Yes, sir.

Q. And the Imperial Tobacco Company have their men out?—A. Yes, sir.

Q. And then the Tuckett Tobacco Company have their men out?—A. Yes, sir.

And Houde have their men out?—A. Yes, sir.

Q. And when these three take orders from the independents they pass them through a jobber?—A. Yes, sir.

Q. And do you keep the jobbers in line by the distribution of these orders that you take?—A. Well, I do not quite get your question, but our men are instructed to take an order from the dealer and have it shipped through whatever jobber the dealer designates.

Q. Through whatever jobber the retailer designates?—A. Yes, sir.

Q. Then do you sometimes, in spite of the fact that he may designate a certain jobber, ship them through your own owned and controlled jobbing house? —A. Not if the dealer designates the National Grocers of Toronto.

Q. No, but if he designates some others?—A. No, sir.

Q. Well, the statement has been made, that if certain jobbers don't do certain things for the Imperial Tobacco Company then the orders that would ordinarily go to that jobber go to the owned and controlled Imperial house, and that one means of holding that jobber in line is by giving your owned and controlled house the orders that come from your commercial travellers?—A. Well, I would say—

Q. Is there any truth in that statement?—A. I would say that it is a very exaggerated and unfair statement without any foundation of fact.

Q. I see. Then you have not had that experience?—A. No, sir. I might say that for seven years I was with the Tuckett Tobacco Company before they were taken over by the Imperial and I fought the Imperial tooth and nail and I know both sides of the question probably better than most people.

Q. Yes. Well then, with respect to your program of displays, is it a fact that your travellers are sent out to get as much display space in a store as possible?—A. Yes, sir.

Q. And then do they do this sort of thing: The traveller for the Imperial will go into a town where there are three or four retailers and talk to one man and say "We will make you the agent for the Imperial in this town . . ."—A. No, sir.

Q. "We will make you the agent for the Imperial in this town if you will give us your store for display"?—A. Not to my knowledge.

Q. And then the Tuckett Tobacco Company come along and say to the next man "We will make you the agent for the Tuckett Tobacco Company in this town if you will give us your store for display"?—A. Not to my knowledge.

Q. And does the Houde man come along to the third man, the third retailer and say "Now, we will give you our goods if you will give us all the display possible"?—A. Not to my knowledge.

Q. And that does not leave very much out of four men in a town, does it? —A. No, sir.

Q. You do not know of any case of that kind?—A. No, sir.

Q. Well, those are statements that come to us.—A. I would be very glad to investigate any one that you will give me the details of.

Q. Perhaps you will hear more of that this morning from those who are in the business.—A. All right, sir.

By Mr. Kennedy (Winnipeg):

Q. Mr. Sommerville, I think it would be only fair that where there are accusations being made against any firm or representative that if they are here they should be given ample opportunity to meet them.

Mr. SOMMERVILLE: The other manufacturers are here and will give us the evidence with respect to it later, because of statements that I understand are being made, so that Mr. Spafford will have an opportunity to tell us about them.

Mr. KENNEDY (*Winnipeg*): But if accusations are made, I presume that a witness like this will have an opportunity.

Mr. SOMMERVILLE: A full opportunity to answer any statements made by manufactures or others.

Mr. KENNEDY (*Winnipeg*): I am trying to put myself in the position of a business man who has to meet what is currently called gossip.

By Mr. Sommerville:

Q. Now Mr. Spafford, in charge of sales you will know of the reduction that took place when the excise tax was taken off in November of 1932?—A. Yes, sir.

Q. And yesterday we were given to understand, that with respect to a substantial number of cigarette brands the price was reduced from $12.50 to $10 a thousand, or a reduction of $2.50 a thousand?—A. Yes, sir.

Q. And that $2 of that represented the excise tax and 50 cents represented a reduction to the consumer that came from the manufacturer?—A. Yes, sir.

Q. As a matter of fact, Mr. Spafford, is it not so that not one copper of that reduction came out of the manufacturer? On the $2 reduction you had, $2 was taken off by the excise tax?—A. Yes.

Q. The 6 per cent sales tax on $2 took off 12 cents; that made it $2.12. Was not the remaining 38 cents made up by the reduced profit of the retailer and the jobber?—A. No, sir.

Q. I am talking now of the $2.50 reduction?—A. At the time of the changed prices the retailer's margin of profit was increased.

Q. Well, I do not care if it is of the retailer or the jobber.—A. And the jobbers too.

Q. And the jobbers?—A. Yes, sir.

By Mr. Edwards:

Q. What is the average on the retail gross?—A. The direct buyer?

Q. Yes?—A. He would get about 23 per cent.

Q. Can you maintain a store on 23 per cent?—A. Yes, sir.

Mr. Edwards: I don't think it.

By Mr. Sommerville:

Q. Wait a minute now, please. You say the independent, or at least the retailer who buys direct gets about 23 per cent?—A. The retailer who buys direct, yes.

Q. Yes, and the retailer who buys through the jobber has to operate on 13 per cent?—A. Approximately that.

Q. It used to be 20 per cent I understand a few years ago?—A. The indirect man?

Q. The indirect man, yes.—A. Well, that is news to me sir.

Q. Was it not a good deal higher than 13 per cent?—A. Those figures do not show that, and they go back to 1925.

Q. Now, you say when the change took place in 1932—in November, 1932—the retailer and the jobbers were given a larger margin of profit?—A. Yes, sir. Take Turret cigarettes. The jobber prior to the duty, his profit was $9.26; after the duty his profit was $9.99 The direct retailer's profit was $20.44 and after the duty it was $21.87.

Q. How do you account for that when you got the same money for your cigarettes from the manufacturers as you were getting before?—A. From the manufacturer?

Q. From the jobber that you were getting before?—A. We did not, sir.

Q. Take Turrets. You sold them up to November, 1932, at $9.94; is that right?—A. Yes.

Q. And after the excise tax came off you sold them at $7.81?—A. Correct, sir.

Q. Which was $2.13 less, was it not?—A. That gave us 13 cents then.

Q. Now, did you?—A. According to this.

Q. Two dollars represent the excise tax, and on $2 the sales tax is 12 cents. So that your $2.12 came off by reason of taxation, did it not? Is not that the fact?—A. May I figure it my way?

Q. Is not that the fact?—A. Would you mind repeating that?

Q. I said when you sold the cigarettes for $2 less that $2 represented the excise tax? That is right.

Q. And when you sold the cigarettes for $2 less you paid 12 cents less on sales tax?—A. Yes.

Q. So that altogether you sold for $2.12 less by reason of a reduction in taxation. Is not that right?—A. Your figures would seem right. I would like to quote mine. I cannot reconcile those to mine.

Q. Is not that the fact? You took $2.12 off by reason of the reduction in excise and sales tax?—A. Yes, that is right.

Q. And since November, 1932, you have been getting $2.13 less for your cigarettes than you were getting before?—A. Yes.

Q. Of which $2.12 represented the tax I referred to?—A. Yes, we lost 1 cent.

Q. Per thousand?—A. That is right, sir.

Q. And the jobber and the retailer lost the other 37 cents?—A. But his percentage increased.

Q. I do not care how his percentage increased; he lost the other 37 cents?—A. Well, sir, if you sell an article at $20 and the discount is 10 per cent you make $2, don't you?

Q. Yes?—A. And if you sell the article at $8 and the discount is 10 per cent you only make 80 cents.

Q. That is sound mathematics.

By Mr. Senn:

Q. These percentages you have quoted are on the selling price rather than on the purchase price?—A. On the selling price, yes.

Q. Why do you figure it in that way. Are not the profits estimated on the purchase price?—A. That seems to be the custom in the wholesale and retail trade—to figure their margin of profit that way.

Q. If the selling price is reduced it would increase that percentage?—A. Yes, sir.

Q. So that you are reckoning in that peculiar way to show an increase in percentage?—A. It is not peculiar.

Mr. EDWARDS: That is right. 25 off is 33⅓ on.

The WITNESS: Yes.

By Mr. Senn:

Q. Is that the recognized principle in business that you reckon your cost on selling price rather than on purchase price?—A. It is in the tobacco business.

Q. Is the tobacco business alone in that?—A. I do not know, sir. I say that is so in the tobacco business. I have been so busy with my own business I have not worried about the other businesses.

By Mr. Sommerville:

Q. That same principle you have just referred to accounts for the reduction in 1932 in Dixie cigarettes, Guinea Gold cigarettes, Millbank cigarettes, Turret cigarettes, Viceroy cigarettes and Winchester?—A. In a general way it applies to all those brands.

Q. Those exact figures apply in the same way?—A. Yes.

Mr. FACTOR: So the actual reduction of the Imperial Tobacco Company was one cent per thousand.

Mr. SOMMERVILLE: Or less.

Mr. FACTOR: It may be on that figuring of the tax; it may be nothing.

By the Chairman:

Q. Mr. Spafford, it strikes me that what Mr. Sommerville says is quite true. It is a question of fact, and it seems to me there is not much use labouring the question; it could be frankly admitted, because with the reduction of the $2 excise you get an additional reduction in tax of 12 cents on your sales. There is no question?—A. No, sir.

Q. That accounts for the total reduction; and the sales tax reduction and the excise tax reduction account for the total reduction that you made, for instance, in Turrets and a number of these others?—A. Yes, sir, within a cent.

Q. Within a cent?—A. Yes.

By Mr. Sommerville:

Q. Then, with respect to cut tobaccos, you made a reduction at the time that you took out the cigarette papers from a number of brands?—A. Yes.

Q. Now, let me understand. The cigarette papers go into each package, or they did?—A. Yes.

Q. And if there were 15 packages in a pound that represented 15 packages of cigarette papers to a pound of tobacco?—A. Yes, sir.

Q. And I am told that these 15 packages in themselves would represent a cost of anywhere from 5 to 8 cents a pound if included in the cigarettes?—A. I think that is a little high; it would be 3 or 4 cents.

Q. 3 or 4 cents. All right, I will take your figures. 3 or 4 cents was the price for those papers?—A. Yes.

Q. And then by reason of the excise tax being put on 2 cents would have to be added for each package of papers?—A. Yes.

Q. And if there were 15 in a pound that would be 30 cents, that would be added?—A. Yes, sir.

Q. Added to a pound of tobacco?—A. Yes, sir.

Q. By reason of the excise. And if there were 18 packages in the pound it would be 36 cents?—A. Yes.

Q. That tax would figure out at from 30 to 40 cents a pound according to the size of the package in which you divided the pound?—A. Yes, 36 cents was the highest price.

Q. Yes. At that time you took off, I understand, from 4 to 6 cents a pound on your cut tobacco; the statement is here?—A. You have the pages there?

Q. Yes, I have, Mr. Spafford.—A. 7 cents down through.

Q. So that by cutting out the papers you would save 3 to 4 cents?—A. Yes.

Q. And the additional amount would be represented by a reduction from the manufacturer?—A. Yes.

Q. Less whatever reduction there was in the sales tax?—A. Yes, that would be fractional—7 cents a pound.

Q. Thank you. I just wanted to have that situation cleared up. That is all, Mr. Spafford.

By Mr. Young:

Q. There is something here which has been puzzling me. I do not know whether you can straighten it out or not?—A. I will do my best, sir.

Q. I see from the trade of Canada that we exported last year some 853 pounds of cigarettes valued at $894, or approximately $1 a pound. Then I find that we imported from the United States some 4,335 pounds of cigarettes valued at $12,889 or an average of $2.97 a pound. I want to know how it comes that the cigarettes we import are worth so much more than the ones we export?—A. Well, it is the duty, sir.

Q. No, the duty on a pound of cigarettes would be about $4.85 at these values, and that is added to these importations.

The CHAIRMAN: That is the price before duty you are quoting?

Mr. YOUNG: Yes.

The WITNESS: Well, I am sorry I could not answer that offhand. I would be glad to get the information for you.

By Mr. Young:

Q. Now, we were told yesterday that it takes 3 pounds of tobacco to make a thousand cigarettes?—A. That is approximately right, sir.

Q. Then if they are worth $2.97 a pound that brings 1,000 cigarettes before the duty is paid up to $8.91 and the duty would be about $14.55 which would bring the imported cigarette to an enormous price?—A. It is an enormous price. I think a package of Chesterfield or Lucky Strike imported from the United States, if they sold at 12½ cents in the United States, I believe the retail price here is something like 35 or 40 cents.

Q. Yes. I figured it would be $23.46 duty paid value on 1,000 cigarettes? —A. I have not figured it out.

Q. I find that the total exports of cigarettes from the United States—these are American figures— —A. Exported where, sir?

Q. To the world from the United States—the total exports were 2,771,296,000 valued at $5,722,661, approximately $2.06 a thousand. That is the value of cigarettes exported from the United States to all countries, but the value of cigarettes exported from the United States to Canada figures at $8.91 a thousand? —A. I do not question your figures, sir, but it does not look right to me.

Q. It does not look right to me either. I want an explanation.—A. I think your figures are wrong.

Mr. FACTOR: You do not know Mr. Young. He never figures wrongly.

Mr. YOUNG: These figures are from the Bureau of Statistics, except the exports which came from the American Embassy.

The CHAIRMAN: They are the ones that are wrong.

The WITNESS: I know this, sir, that we do what we call a ship storage business—ships coming in, say, at Vancouver, and we have an inbound warehouse and we carry American cigarettes, and our price to these ships, if I am not mistaken, is $2.35 in bond. Now, that is what we make—you know, the usual small margin of profit.

By Mr. Young:

Q. In your brief, at page 1619 of the record, I find that your value for 1,000 cigarettes, excluding excise tax and sales tax in 1933 was $3.46⅔ per thousand?—A. May I ask Mr. Lane to answer those questions. He is the chief statistician.

Q. The point is this that your value of cigarettes, apart altogether from taxes, is $3.46, while the American value of cigarettes apart altogether from taxes is $2.06, and I want to know why it costs $3.46 to manufacture cigarettes in Canada when they can be manufactured for $2.06 in the United States?

Mr. LANE: You figure $2.46 in the United States?

Mr. YOUNG: $2.06.

Mr. LANE: The comparable values of cigarettes in Canada and the United States were covered in that statement filed yesterday, Mr. Young. This $3.46 is the manufacturer's selling price.

Mr. YOUNG: Is not the export price the manufacturer's selling price?

Mr. LANE: The manufacturer's export price? Not necessarily.

The CHAIRMAN: What you are asking, Mr. Young, is to account for an alleged difference between the selling price of American cigarettes and Canadian cigarettes?

Mr. YOUNG: Yes.

The WITNESS: Exported and imported into Canada.

Mr. YOUNG: The Americans export to the world and their factory selling price is $2.06 and your factory selling price is $3.46 according to your figures.

Mr. LANE: That is our selling price.

The WITNESS: Excluding duty and sales tax.

By Mr. Young:

Q. Here is the manufacturer's selling price. That is the export price of cigarettes in the United States, apart altogether from duties and taxes, $2.06 a thousand whereas in Canada it is $3.46. Now, Mr. Miller tells me that out of that $3.46 you must take the duty that he pays on the raw leaf that goes into the manufactured article?—A. That is right.

Q. Which, I understand, amounts to about 90 cents. That would bring the price then to $2.56 instead of $3.46, leaving a difference of 50 cents a thousand between the American price and the Canadian price?—A. The sales tax, sir, comes off that.

Q. The sales tax is already taken off?—A. The sales tax—

Q. That is already allowed for. That would leave a discrepancy of 50 cents a thousand between the American manufacturer's price and the Canadian manufacturer's price.

Mr. LANE: Your figures are based on the reports of the Department of Trade and Commerce. We are not familiar with them at all. We will be glad to get them if you wish and submit a memorandum on it.

By Mr. Sommerville:

Q. Before you leave I want to have you, the same as for the Imperial, submit to the committee a breakdown of the elements entering into the cost of manufacturing one of your brands of cigarettes. I do not want to know the name of the brand, but take one of them. Pick out one of your brands of cigarettes. Give us the brand that has most United States leaf in it and the one that has most Canadian leaf in it, and give us the various elements that go into the manufacture of the cigarettes?—A. We will supply that to you, sir.

Q. And, similarly, two samples of your cut tobacco?—A. You mean the figures?

Q. The figures?—A. You do not want the samples of tobacco?

Q. Oh, no.

Mr. FACTOR: Well, Mr. Sommerville does not smoke.

The witness retired.

CHARLES W. THOMAS, called and sworn.

By Mr. Sommerville:

Q. Mr. Thomas, you represent the Canadian Leaf Tobacco Company, Limited?—A. Yes, but I am not an officer of the Canadian Leaf Tobacco Company.

Q. You are not an officer?—A. No, just a buyer of tobacco.

Q. You are the buyer?—A. Not "the", one of them.

Q. You have been asked to represent them here?—A. Well, I am merely down here observing. Mr. Jackson, the head man of our company was up here

about two weeks ago, and he understood from either you or Mr. Stevens, I think, that we, being packers, possibly would not be called; is that right?

Q. No.—A. I understood that from him.

Q. At any rate, we have been furnished by the Canadian Leaf Tobacco Company through Mr. Jackson, who is the president of the company—?—A. Yes.

Q. —a financial statement, which was sent from Richmond, Virginia, of the past five years. You recognize Mr. Jackson's letter?—A. Yes.

Q. Your company is the Canadian branch of the Universal Leaf Tobacco Company of the United States?—A. Yes.

Q. And that is quite a large buying organization, is it not?—A. Well, I do not know exactly how large it is, I never asked; for they had been there before I came up here. It is one of the largest leaf dealers.

Q. In the United States?—A. Yes.

Q. Up here you have a plant at Kingsville?—A. Chatham.

Q. There you buy leaf and process it?—A. Well—

Q. What is your method of doing business?—A. Most of the tobacco we buy is grown around Delhi. We buy from the Delhi district, ship to Chatham, and process it there.

Q. And then sell it to the manufacturers?—A. Well, most of our—

Q. Or do you buy it on commission orders from the manufacturers?—A. Most of our tobacco is bought on order.

Q. Bought on order?—A. Yes.

By Mr. Edwards:

Q. You do buy some on speculation?—A. I think we have bought some, sir. I am not familiar with what it is bought for or who it is bought for.

Q. You just buy it?—A. That is about it.

The Chairman: He says clearly most of it is bought on order.

The Witness: Yes, I think so.

By Mr. Sommerville:

Q. Are these orders domestic or foreign?—A. Most of them, to the best of my knowledge, would be from England.

Q. From England?—A. Yes.

Q. Who are the domestic buyers from you?—A. Well, most of these small manufacturers, the people who are not large enough to have their own buying organizations in the field.

Q. When you refer to that, who are the manufacturers that buy from you in Canada?—A. We have supplied the Royal Canadian Tobacco Company, Toronto, I think, with some little tobacco, and Grothe.

Q. Of Montreal?—A. Yes.

Q. The Macdonald Company?—A. Not to my knowledge, sir.

Q. The Rock City Company have their own organization?—A. Yes.

Q. Well now, I observe that for the year ending June 30, 1929, your net profits on handling tobacco was $42,594.33, and in that year you handled 585,000 pounds at an average cost to you of 32·85 cents a pound. This is the statement you furnished me with yesterday?—A. Well, I will probably find out more about profits here than I will down there, not being an officer, but anyway, if the profit was $49,000 odd as you say—

Q. According to the statement filed, the profit that year was $42,594.33?—A. On approximately half a million pounds of tobacco?

Q. On approximately half a million pounds of tobacco?—A. I think we packed more tobacco that year than that. That will be flue-cured tobacco. We packed a certain amount of dark and some burley tobacco.

Q. Burley and other tobacco as well?—A. Yes.

Q. But the bulk of your tobacco would be flue-cured?—A. Oh, yes, it would now; it would back then, possibly.

Q. It would then?—A. I would not say, I am not sure, but I do not think the bulk was.

Q. Would you give me a statement then, of your purchases of other than flue-cured?—A. All that is flue-cured.

Q. Will you be good enough to send in a statement showing the purchases of tobaco for the years 1929 to 1933 inclusive?—A. Yes.

Q. Then the next year I observe your profits were $48,571.69 on a purchase that year of flue-cured tobacco amounting to 2,319.950 at an average of 32·80 cents per pound. That was your purchase of flue-cured?—A. Two and a half million pounds; if that is there, it is right.

Q. We shall keep the purchases separate. The profits the second year were $48,571.69. In 1931 they appear to be $59,406.34; in 1932, $113,506.12 and in 1933, $138,199.74. These profits were on the purchases of leaf. There is a statement here as to the total amount of leaf handled each year. In the year 1929 the total amount of leaf handled was 4,433,000 pounds. In 1930, the total amount of leaf handled was 2,643,500 pounds; in 1931, 5,042,600; in 1932, 6,972,500, and in 1933, 7,771,900. Then, I observe in addition to those profits, that are shown here, reserves have been set up which amounted to $10,688.28 in 1929, and they have increased to $68,028.38 in 1933. Your total reserves are $68,028.38; plant and equipment was $81,082.56. I think I shall have this financial statement copied in the record at this stage.

The CHAIRMAN: That will be exhibit 139.

Financial statement of the Canadian Leaf Tobacco Company, Limited, for the years 1929 to 1933 inclusive filed and marked exhibit 139.

CANADIAN LEAF TOBACCO COMPANY LTD., CHATHAM, ONTARIO, CANADA

BALANCE SHEET FOR FIVE YEAR PERIOD ENDING JUNE 30, 1933

Assets	Year ended June 30, 1933	Year ended June 30, 1932	Year ended June 30, 1931	Year ended June 30, 1930	Year ended June 30, 1929
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Current:					
Cash	12,799 00	199,266 98	76,621 74	198,058 08	22,262 93
Accounts receivable	147,472 44	125,237 02	122,356 87	35,440 16	138,160 87
Inventory—Tobacco	574,828 68	267,226 11	421,044 74	240,331 40	246,553 95
Inventory—Supplies	1,875 79	1,040 00	260 00	1,125 00	370 00
	736,975 91	592,770 11	620,283 35	474,954 64	407,347 75
Fixed:					
Land	4,000 00	4,000 00	4,000 00	4,000 00	4,000 00
Plant and equipment	81,082 56	79,506 68	79,321 72	77,445 79	59,344 62
	85,082 56	83,506 68	83,321 72	81,445 79	63,344 62
Consignment Account	....	191,600 33	145,516 62	....	....
Prepayments:					
Expense on Joint Account	329 88	....	....	....	5,717 15
	822,388 35	867,877 12	849,121 69	556,400 43	476,409 52

CANADIAN LEAF TOBACCO COMPANY LTD., CHATHAM, ONTARIO, CANADA

BALANCE SHEET FOR FIVE YEAR PERIOD ENDING JUNE 30, 1933

Liabilities	Year ended June 30, 1933	Year ended June 30, 1932	Year ended June 30, 1931	Year ended June 30, 1930	Year ended June 30, 1929
	$ cts.	$ cts.	$ cts	$ cts	$ cts.
Current:					
Accounts payable	257,761 24	65,081 14	57,897 77	40,791 92	62,852 49
Notes payable	60,000 00	200,000 00	307,000 00	215,000 00	136,000 00
	317,761 24	265,081 14	364,897 77	255,791 92	198,852 49
Capital Stock	200,000 00	200,000 00	200,000 00	200,000 00	200,000 00
Surplus and Undivided Profits	236,552 64	128,352 90	94,846 78	85,440 44	66,868 75
Joint Account Sales	46 09	...	...	...	...
Reserves:					
For depreciation	28,028 38	22,842 75	20,211 27	15,168 07	10,688 28
For contingencies	40,000 00	40,000 00	23,649 25	...	...
For loss on exchange	...	20,000 00	...	...	...
	68,028 38	82,842 75	43,860 52	15,168 07	10,688 28
Consignment Account	....	191,600 33	145,516 62	...	...
	822,388 35	867,877 12	849,121 69	556,400 43	476,409 52

CANADIAN LEAF TOBACCO COMPANY LTD., CHATHAM, ONTARIO, CANADA

INCOME AND EXPENSE STATEMENT FOR FIVE YEAR PERIOD ENDING JUNE 30, 1933

—	Year ended June 30, 1933	Year ended June 30, 1932	Year ended June 30, 1931	Year ended June 30, 1930	Year ended June 30, 1929
	$ cts.	$ cts	$ cts.	$ cts.	$ cts.
Tobacco sales	1,002,351 98	1,266,049 77	1,080,063 02	579,772 06	682,201 79
Cost of sales including processing	808,829 76	1,202,982 44	1,001,564 74	518,674 41	653,336 28
Gross profit on sales	193,522 22	63,067 33	78,498 28	61,097 35	28,865 51
Rehandling charges and miscellaneous	234,333 09	271,560 30	165,595 40	108,688 78	133,044 53
	427,855 31	334,627 63	244,093 68	169,786 13	161,910 04
Deduct:					
Expenses including depreciation	289,655 57	221,121 51	184,687 34	121,214 44	119,315 71
Net profit	138,199 74	113,506 12	59,406 34	48,571 69	42,594 33
Number of pounds of tobacco handled each year	7,771,900	6,972,500	5,042,600	2,643,500	4,433,000
Profit per pound of tobacco handled each year	1·78c.	1·63c.	1·18c.	1·84c.	0·96c.

Q. In 1929, according to your statement, you bought 518,500 lbs. of flue-cured at an average of 32.85 a pound. In 1930 you have your figures divided into two lots. First you purchased 2,319,950 pounds at an average price of 32.30, and then culls purchased from the grower, not including the above, 98,319 pounds, at an average of 2.82 cents a pound. What are culls?—A. Culls would be tobacco that—suppose I buy a man's crop of tobacco, we will say, at an average price of 20 cents, we would ask him to throw out all green and black or the dead, and that would constitute cull.

Q. I observe on the first day of 1930, October 6, you bought 8,774,505 at an average price of 35.17. This is your statement?—A. Yes.

Q. Do you remember what the high price was that year?—A. The top price, yes.

Q. 1930?—A. Forty cents, I think.

Q. On that first day you bought on the average of 35 cents. Then, the price dropped until on the 22nd October your final purchase of 5,000 was an average of 24?—A. Yes.

Q. In 1931 you bought a total of 1,824,000 pounds, at an average of 23.20 cents?—A. Yes.

Q. In addition you bought some culls from growers, not included in the above, 49,900 pounds at an average of 5.88 cents?—A. Yes.

Q. On the first day of the market, the 6th October, I observe you bought 401,000 pounds at an average of 28.35. The top that year was 30 cents?—A. Yes, that is right.

Q. I observe that more than half your purchases were at an average better than 25 cents.

The CHAIRMAN: What year?

Mr. SOMMERVILLE: 1931.

The WITNESS: You mean half the tobacco we purchased averaged more than 25 cents?

By Mr. Sommerville:

Q. Yes. Look at the statement.—A. It possibly did in 1931, yes.

Q. Look at the remaining figures further down. The next week I observe a very sudden drop to 16 cents and thereabouts. How do you account for the serious drop at that time, Mr. Thomas? Were you following your competitors, or were you affected by the conditions that had been created?—A. In what way do you mean?

Q. In what way do you account for a very serious drop in prices?—A. That was the year that there was some of the tobacco that was, what you might say, signed up under option by some other growers, and I also think—I am not sure—but I think the pound sterling had something to do with it, and this drop would naturally come about by an inferior quality of tobacco.

Q. We have had evidence of the 1931 debacle in the market. You know of the conditions that prevailed?—A. Yes.

Q. There was a very sudden drop the second week, and there was a good deal of confusion in the minds of the growers, was there not?—A. A little, I guess.

Q. That is a good deal from a buyer. Let me see that statement again.

Mr. SENN: I understood the 1931 crop was an exceptionally good crop, and now the witness has stated it was an inferior crop.

Mr. SOMMERVILLE: The 1932 was the best crop but 1931 was a good crop.

The CHAIRMAN: So the other witnesses say.

The WITNESS: It was a good crop.

Mr. SOMMERVILLE: The 1931 crop was a good crop?

The WITNESS: Yes.

By Mr. Senn:

Q. I understood Mr. Thomas to say one of the reasons for the low price was the inferior crop?—A. What I mean by that is the tobacco we were buying then was not as good as the tobacco we had been buying. There is always a range from the top to the bottom.

Q. Earlier in the year?—A. That is right, sir.

By Mr. Sommerville:

Q. We have not got the 1932 figures, but they are contained in the report of Mr. Sutherland at page 30. This report shows your total purchase of flue-cured to be 4,524,000 pounds at an average of 14·08 cents in 1932?—A. Yes.

Q. In 1933 the figures you have given me are 1,229,400 pounds at an average of 17.56 per pound, and culls from growers not included in the above 513,749 pounds at 4.47 cents?—A. Yes.

Q. That is to say, the good tobacco you bought was 1,229,400 pounds and culls were 513,749 pounds?—A. Yes.

By Mr. Boulanger:

Q. What do you do with culls?—A. We pack them and try to sell them, and do sell some of them.

Mr. YOUNG: That is a trade name.

The WITNESS: Very inferior tobacco.

The CHAIRMAN: You were quite successful in selling it too, I should judge from your statement.

By Mr. Sommerville:

Q. In 1933 you handled a quantity of tobacco for growers, did you not?—A. Yes.

Q. What is the basis upon which you are handling that?—A. We make a cash advance when they bring tobacco to us, green weight; that is before it is redried, and before the tobacco has been graded, largely, and I think the advance will vary from possibly 7 cents up to 10 cents or from 6 to 10, I do not know exactly. That is just an advance, and the grower still retains a title to his tobacco, and we will sell that tobacco for the grower and with the grower's consent. They have to agree on the price that is made when this tobacco is sold, when the grower gets the balance.

Q. You receive the tobacco?—A. Yes.

Q. Then you grade it?—A. Yes.

Q. You re-dry it?—A. Yes.

Q. You pack it in hogsheads in the various grades?—A. Yes.

Q. And sell it upon those grades?—A. Yes, sir.

Q. And when it is sold it is sold at a price that is approved of by the grower?—A. Yes.

Q. In other words, you submit the price to him?—A. Yes, sir.

Q. Then, what remuneration do you get for your services?—A. We got a handling charge.

Q. What is the handling charge?—A. Our handling charge is $5 a hundred on that tobacco.

Q. $5 a hundred on the tobacco?—A. Yes.

The CHAIRMAN: Does that include shrinkage?

The WITNESS: Yes, that is re-dried weight.

By Mr. Sommerville:

Q. The handling charge is not upon the green weight the farmer delivers to you?—A. No, sir.

Q. It is on the re-dried weight after it has been made ready for the hogsheads?—A. Yes.

Q. And the shrinkage is what?—A. It will vary, depending on the grade of tobacco, possibly from 10 to 14 per cent.

Q. As much as 14 on flue-cured?—A. I say from 10 or about 11½ to 12 per cent, possibly.

Q. Then, for the services that you render after it is sold you take $5 a hundred?—A. Yes.

Q. For the charge?—A. Yes.

Q. I observe that at present you have in hand for the farmers 4,511,640 pounds of leaf, which you are handling in this way?—A. I think that is correct.

Q. And that the average advance on this leaf to this date is 8·62 cents to the grower?—A. That is right.

By Mr. Factor:

Q. May I interject at this point? I have received a complaint from Delhi, from one of the growers there, in connection with this transaction, Mr. Thomas. After the Imperial Tobacco Company stopped buying, you went to the growers and contracted their crops of tobacco last winter?—A. Not necessarily after the Imperial stopped, after everybody stopped, as far as we knew.

Q. You agreed to advance them between 6 and 10 cents per pound?—A. Yes.

Q. This particular grower tells me you are now coming around and trying to get growers to sign up an option on tobacco for $10\frac{1}{4}$ cents a pound?—A. Not an average; maybe on that particular crop.

The CHAIRMAN: Is that the final figure, Mr. Factor?

Mr. FACTOR: Yes.

By Mr. Factor:

Q. I shall read the letter:—

> ....To contract their tobacco with the Canadian Leaf Company, and have it processed and gave the growers in advance on their crops from 6 to 10 cents per pound. Now they are coming around and trying to get the growers to sign an option on the tobacco for $10\frac{1}{4}$ cents a pound net. I have received 9 cents advance on my tobacco; now they say if I sign this option and the worst comes to the worst, I will accept $10\frac{1}{4}$ cents per pound, but they make the growers a promise they will try and get the growers more money, but do not give the growers any signed agreement to that effect. So now if the growers sign for the amount I have mentioned, we cannot expect to collect any more than the option calls for; but they promise the growers definitely that they will pay more money, but do not guarantee they will now.

Q. What do you say about this?—A. That is exactly right.

Q. That is exactly right?—A. Yes, sir. We will try to give them more, but there are other folks who have some tobacco also to sell, and if worst comes to worst—that is exactly what he said—we would like to be in a position to get the growers as much for their tobacco as we possibly can. We do not guarantee to get them any price when we sign them up.

By Mr. Kennedy (Winnipeg):

Q. Do you give any consideration for such an option; do you pay any money, or give any consideration?—A. Absolutely not, sir.

Q. It is binding on them, but not binding on you?—A. I understood you to say, do you pay them to sign these options.

Q. Do you give any consideration?

The CHAIRMAN: They have already given them 9 cents.

The WITNESS: We have already advanced them some money on the market.

By Mr. Kennedy (Winnipeg):

Q. That is a consideration?—A. We have paid that much money.

Q. It is an option to buy on the market?—A. It is not an option for us to buy tobacco, it is an option for us to sell tobacco.

By Mr. Factor:

Q. I understand that, but is not the system this: that you say you will sell the tobacco for at least $10\frac{1}{4}$ cents on the market?—A. We might have to sell it for that, but we do not intend to sell it for that.

Q. For the option?—A. For the option. We have a fairly good reputation down there and we would like to keep it. To do that we have got to get the growers all the money we can. We do not intend to take advantage of a man. I do not know what the associations' prices are, but I think our prices that we are offering for tobacco will compare very favourably to those of the association.

By Mr. Sommerville:

Q. In this case you are acting as agent for the grower; you are grading it, treating it, you are going to sell it in the market?—A. Absolutely, sir.

Q. In this particular instance this man has received 9 cents already on his tobacco, and he gives you an option to sell at $10\frac{1}{2}$ cents; and you charge him 5 cents a pound for treating it—he owes you money, doesn't he?—A. No, that means above.

Q. That is, $10\frac{1}{2}$ cents over and above all charges?—A. Yes, sir.

Q. In other words, it is $15\frac{1}{2}$ cents; or perhaps there are other charges in addition to the five cents?—A. With the exception of the broker's commission in England, and I do not know what that is exactly; and the interest charge—it is the same plan as the two associations have with the government for financing their tobacco along these lines.

By the Chairman:

Q. Before you get away from that: is not that 5 cents a pound a pretty stiff charge?—A. Well, I could not tell you exactly what it costs to re-dry tobacco, Mr. Stevens.

Q. Yes, now, I am taking it that you have deducted the evaporation—the loss in re-drying— from the farmer's weight; you do not credit him with his green weight, you credit him with the re-dried weight?—A. If we charged him, the green weight, it would be more, possibly $12\frac{1}{2}$ per cent.

Q. But if a farmer had 10,000 pounds of tobacco, and assuming that there is a 10 per cent shrinkage, you would credit him with 9,000 pounds of tobacco? —A. That is right.

Q. Then you would charge him 5 cents a pound on that for processing or treating.

By Mr. Senn:

Q. On the 9,000 pounds or on the 10,000 pounds?—A. On the 9,000 pounds.

By the Chairman:

Q. On the 9,000 pounds, that is all right; that would be \$4.50 instead of \$5.00. But you only pay him 9 cents a pound on 9,000 pounds?—A. No sir, we paid him green weight when he delivered his tobacco at our factory.

Q. You paid him 9 cents a pound on the 10,000 pounds?—A. Yes.

By Mr. Young:

Q. When you make final settlement, is that on the green weight basis?—A. That is on the green weight.

Q. The farmer is going to get paid for green weight in the end?—A. Yes, sir, this option about which Mr. Factor speaks means green weight at the farm.

Q. And the 5 cents you are collecting is going to be added in paying for this water you dry out; you are going to pay for it.

Mr. SOMMERVILLE: No.

The WITNESS: Paying for the water; we don't. We advance him 9 cents a pound.

By Mr. Sommerville:

Q. He is getting a price from the purchaser, and he gets 5 cents irrespective of what the purchaser pays?—A. There is a set charge for handling.

Q. And the other charge based on the dried weight?—A. Yes, sir, that is right.

By Mr. Young:

Q. That is a set charge, but on this basis the farmer is going to get 10¼ cents for his green weight?—A. That is right.

Q. And if you sell the tobacco for 12 cents, over the price you named him; if you get 12 cents he is going to get his 12 cents on the green weight?—A. We are selling dried weight, but it is averaged back.

Mr. EDWARDS: I do not think you would get that 12 cents on green weight.

Mr. YOUNG: It said so.

The CHAIRMAN: Oh, no.

By Mr. Factor:

Q. Where does the handling charge come in?—A. Well, under this option we pay him 9 cents for his tobacco when he brings it in, but after processing and handling it will probably average about 18 cents in the hogshead and average back more than about 10 cents to the grower.

By the Chairman:

Q. After you deduct your $5?—A. Yes, sir.

Q. Plus shrinkage?—A. Yes, sir.

Q. Then the handling, including the loss in weight, cost the farmer about 8 cents a pound?—A. About 6 cents I should imagine. I do not think it would be quite 8 cents.

Q. Darned near it. Well, that is a pretty stiff charge?—A. $5 a hundred.

Q. Yes. The farmer it seems to me is getting the short end of it again.

By Mr. Senn:

Q. How do these prices compare with the prices of the other associations that are being financed by the banks?—A. I think we were the first up here. Although we charge $5 a hundred there—I think we were buying tobacco for the Tillsonburg Association in Tillsonburg and we bought over a contract which called for $5 a hundred for handling tobacco.

By Mr. Sommerville:

Q. Yes, but you have handled it for less money than that?—A. Yes, we have handled it for less—where we get large quantities from one individual.

By Mr. Edwards:

Q. In addition to the 5 cents the farmer also has his carrying charges while it is in your barn?—A. He has to pay storage and insurance.

Q. That does away with your financing through the bank, presuming you bought a crop?—A. Yes, sir, if we bought his crop.

By Mr. Sommerville:

Q. Perhaps you can file with this committee a statement showing the cost of handling that tobacco, breaking it down. Your actual cost?—A. Well, Mr. Sommerville, if I might: in handling tobacco I know this much that, we will

say the handling cost is $5 a hundred for a quantity of half a million pounds or a million pounds of tobacco; but if you had to start up your plant, I do not think you could handle tobacco for $7 a hundred.

Q. But you got four and a half million pounds there?—A. That is right.

Q. And with that volume your costs ought to be substantially less than $5?—A. But we did not know we would get four and a half million pounds. We did not know whether we would get half a million, or a million, or how much.

Q. But you have been following this practice for some years, have you not?—A. In 1932 I think we processed some tobacco for Mr. Kingstone, one or two crops; and for Mr. Gregory one or two crops; and in 1931 we processed some tobacco for Mr. Leitch, and I think some for Mr. Scythes.

By the Chairman:

Q. But you are only operating in a large way this past year?—A. We did not have many orders. Our orders amounted to but very little, and there was a lot of tobacco in the country, and we were out on our own to buy tobacco and speculate, and you might have to pay a little less than what you would like to and it might tend to demoralize things. We tried to do our bit in the market and stabilize as much as we could. I might mention here that we have had an opportunity to buy out some of these contracts at that price, and the growers have been to us to sell them, but we have not bought them.

By Mr. Factor:

Q. When do you make the advance to the grower?—A. When he brings in his tobacco.

Q. And what he gets— —A. Depends on the quality of the tobacco.

Q. When does he get the balance?—A. When it is sold.

By Mr. Edwards:

Q. Is not that really co-operative selling on a commission basis; that is what you are doing?—A. That is right. We are handling tobacco for the farmers just like the associations.

Q. In other words, they are carrying the stock with you instead of selling it outright, hoping to get a better price?—A. That is right.

By Mr. Young:

Q. When you take the farmer's tobacco you give him so much money, you also give him some kind of a statement?—A. A contract.

Q. What does the contract say?—A. I do not exactly remember the wording of it, I wish I had one here.

Q. Does it describe the tobacco you take in?—A. No sir, it does not describe it.

Q. You say you are going to pay him according to grade. Do you keep his tobacco separate?—A. After we grade the tobacco, we send the farmer the grade—so many pounds of this particular grade, and so many pounds of another grade.

Q. You are really taking it in on grade?—A. We take in the whole crop, regardless of whether it is the best grade or one of the poorest.

Q. Yes, but you take it on grade; you grade each shipment as it comes in—so many pounds of one, so many pounds of the other, and so on?—A. Maybe this will make it a little simpler: we take in a crop for 30,000 pounds from a grower; we advance the grower we will say 8 cents; we grade that crop of tobacco in the factory and out of the 30,000 pounds we might get so many pounds of this grade, so many pounds of that, or so many of this, and so on;

and then we will give the grower a grade sheet showing the grower exactly how many pounds of tobacco he had in each particular grade.

Q. Then you have this contract to buy tobacco on grade, according to grade; it is to be sold on grade?—A. Yes, sir.

By Mr. Edwards:

Q. It has to be sold on grade?—A. Yes, sir.

Q. Why would it not be practical, Mr. Young asks, to buy it on grade?—A. Do you mean, buy it by the hogshead?

By Mr. Young:

Q. I mean, when you buy a farmer's tobacco is it practicable to buy it in this way: so many pounds of one grade, so many pounds of another, and so many pounds of another, and so on; is it possible to buy that way, is it practical?—A. No, sir, I do not think so.

Q. Are you doing it?—A. We do it in the factory still, but a farmer—maybe he will strip his crop in two grades, or one grade; maybe this particular farmer is a good stripper, he might have a medium or a good crop of tobacco, and he might put out a grade of tobacco that we will say is good or bright; but a good many others pull the leaf in such a way as to hurt the grade.

Q. I do not want to take the farmer's grade, but it is practicable for the farmer to bring in the tobacco load by load after load, and you grade it as you buy; is that practicable?—A. I could not say, sir; it might be.

Q. You are practically doing it?

By the Chairman:

Q. Of course, the point of the whole thing is this: the farmer accepts your grade anyway?—A. Yes, sir.

Q. There is no supervisor or inspector?—A. Well, no, sir. We ask the farmers to come in when we grade the tobacco, but it has to be left in our hands.

Q. Your judgment determines the grade?—A. Yes, sir.

Q. Well, it can be sold that way?—A. It might be.

Q. It is being sold that way, you are doing it?—A. We are trying to do it. I do not think we have sold any of it yet; when it is sold that is the way it will be sold.

By Mr. Kennedy (Peace River):

Q. What grades do you use?—A. You mean, the names of the grades?

By Mr. Sommerville:

Q. I think there are 16 of them and they are set out in the Sutherland report?—A. Our grades vary, they change from year to year. It might be that sometimes we would use numbered grades, and at others we might use letters.

Mr. Kennedy (*Peace River*): Do you use numbers, 1-2-3-4-5-6, or do you use any particular name?

The Chairman: Such as "fancy," "good," "medium" and so on.

Mr. Sommerville: On page 36 of the Sutherland report there is a list of 12 or 15 grades—A, B, C, D, E and F; that is the consolidated grading which gives an idea of the type of grading that is done—whatever that means.

The Witness: I think A would be the best grade, B the next and so on, down.

By Mr. Young:

Q. And the farmers seem to be pretty well satisfied with that way of doing it, don't they?—A. I believe the farmers would rather sell tobacco green at the farm, providing the price was within reason.

Q. But these other buyers buy on the average of the crop?—A. Yes, and he gets his money for it when he brings it in; and he would rather do that than wait—we do not know how long they will have to wait.

By Mr. Senn:

Q. I think it will be of interest if the witness would file a copy of the contract that he has with the farmer?—A. I do not think I have one with me.

By the Chairman:

Q. Will you see that a copy is forwarded to us?—A. Absolutely, I will.

By Mr. Sommerville:

Q. And a statement showing the break-down of the cost of treating and processing this tobacco?—A. You mean that particular lot.

Q. This year's lot?—A. Yes.

The CHAIRMAN: Thank you Mr. Thomas.

The Witness was discharged.

Mr. BOULANGER: Before we close, there is a little matter I would like to bring up. One of the witnesses we heard last Thursday, Mr. Frenette, wrote me a letter of explanation. I have translated it the best I could, and I have sent a copy to all members of the committee.

The CHAIRMAN: Was it a correction?

Mr. BOULANGER: It is rather an explanation of his evidence; and I wonder if there would be any objection to having that letter included in the minutes.

The CHAIRMAN: I do not think so, no. It is quite all right, Mr. Boulanger.

Mr. Boulanger filed a letter from Mr. Charles Frenette, reading as follows:—

Monsieur Oscar Boulanger, M.P.,
Chambre des Communes,
Ottawa.

Cher Ami,

Au sujet de mon rapport devant le Comité d'Enquête concernant le tabac. Le Comité peut être resté sur l'impression qu'il y a beaucoup de profit et c'est pourquoi je vous envoie tous ces détails:

La moyenne du tabac acheté est de $0 \cdot 05\frac{1}{2}$ et je n'ai jamais calculé au juste la préparation qui est de $0 \cdot 02$ à $0 \cdot 03$, le fret que l'on paie pour St-Charles $0 \cdot 75$ pour 100 lbs, ce tabac ne se vend pas à St-Charles et la moyenne du fret payé pour shipper ce tabac aux clients est encore de $0 \cdot 75$ à $1 \cdot 00$ du cent. Dans une récolte on est obligé d'en perdre en le classifiant au moins de 10 à 15%. Ces tabacs sont vendus à crédit avec un délai dont le minimum est de 90 jours souvent 6 mois et beaucoup ne paie pas du tout. La vente du tabac par les voyageurs coûte au moins $0 \cdot 02$ la livre. Il y a à part cela toutes les dépenses de bureau, les frais de voyage pour voir à l'achat et beaucoup d'autres dépenses que ça entraîne dont ce serait un peu long à énumérer.

Donc dans les circonstances nous vivons très pauvrement avec ce commerce, et forcé à discontinuer ou à être ruiné si les choses ne changent pas.

Si vous trouvez opportun de donner ce rapport au Comité, veuillez le faire s'il vous plaît, je vous serais très obligé.

Toujours à votre service,

Chas. FRENETTE,
par B.

P.S.—Je faisais le commerce de Cigares et la compétition que nous avons eu de la Royale Tobacco m'a forcé de discontinuer. Les clients sont forcés d'acheter double et le pourquoi le Comité le sait.

The CHAIRMAN: Are there any other witnesses you wish to call, Mr. Sommerville?

Mr. SOMMERVILLE: I think not this morning.

The CHAIRMAN: We will meet again this afternoon at half past three.

The Committee adjourned at 12.35 p.m. to meet again this day at 3.30 p.m.

AFTERNOON SESSION

The Committee resumed at 3.30 o'clock.

The CHAIRMAN: Order, gentlemen. Mr. Boulanger has asked that a letter from Mr. Frenette should be read into the record. Will you read that, for us, Mr. Clerk? It can be incorporated in the record.

The CLERK: (Reading):

CHARLES FRENETTE

WHOLESALE TOBACCO MERCHANT

ST. CHARLES, May 11, 1934,
County of Bellechasse.

Mr. OSCAR BOULANGER, M.P.,
House of Commons,
Ottawa.

DEAR FRIEND,—With regard to my testimony about tobacco before your investigation Committee, you may have remained under the impression that I might make great profits, and for this reason I send you the following particulars.

The average price of the tobacco which is purchased is ·05½, and I have never figured out exactly the cost of preparation which is from ·02 to ·03, the freight to St. Charles, which is ·75 per 100 pounds and the freight from St. Charles to my clients, costs another ·75 per 100 pounds, as this tobacco is not sold at St. Charles the average loss in bundling and classifying is at least from 10 to 15 per cent. This tobacco is sold on credit at a minimum of 90 days, and extending often to six months, and many clients do not pay at all. The sale of the tobacco by travelling salesmen costs at least ·02 a pound. In addition to that there are the office expenses, travelling expenses for the purpose of purchasing, and many other incident expenses, which it would be too long to enumerate in detail.

Under the circumstances we live very poorly with that business, and if this does not change we will be forced to discontinue, or we will be ruined.

If you deem it advisable to give these explanations to the Committee, will you please do it and I will be very obliged to you.

Always at your service,

(S.) CHARLES FRENETTE,

P.S.—I used to trade in cigars, but the competition which was made by the Royal Tobacco (evidently he means the Imperial Tobacco) has forced me to discontinue. Clients are forced to purchase double quantity and the Committee know about that.

C.F.

Mr. SOMMERVILLE: I will call Mr. Hughes of the Grothe Company.

JOHN HUGHES, called and sworn.

By Mr. Sommerville:

Q. Mr. Hughes, what is your position in the company?—A. Secretary-treasurer.

Q. Secretary-treasurer of what company?—A. L. O. Grothe Limited.

Q. And your company are manufacturers of tobacco, located in the city of Montreal?—A. Cigars, cigarettes and tobacco.

Q. You have been in business for a long period of years?—A. Been in business for about 55 years, but in cigars only until about three years ago.

Q. Three years ago you went into the manufacture of cigarettes and——A. Cigarettes and tobaccos.

Q. Cut tobaccos?—A. Yes, cut tobaccos.

Q. The business has been conducted by Grothe, the father, and then by his sons?—A. By the sons.

Q. During the period of some fifty odd years?—A. Yes.

Q. At the present time you have a full line of cigars, cigarettes and tobaccos?—A. That is right.

Q. We are dealing at the present time with some of the merchandising practices in the tobacco industry. As secretary-treasurer of that company, I want to ask you if you are familiar with the merchandising practices with which you meet in your trade?—A. Quite so.

Q. Do you do business throughout Canada?—A. Throughout Canada, from coast to coast.

Q. Perhaps you will be good enough to tell the members of the committee what are the practices that you have found militating against the development of your business for those years that you are familiar with?—A. Pardon me for just getting things in order for a second, first.

Q. That is all right. Will you just speak up, so that the members at the end of the table may hear just what you say?—A. Yes, I will. First of all, I would like to express myself on behalf of our establishment as being absolutely in favour of price maintenance. I would not like the impression to become known amongst the trade that because our big competitors express themselves in that behalf, that we are opposed to it, because the contrary is the truth. We have always been in favour of price maintenance in the interests of the trade in general; and we have always tried to contribute in every way we could to see that it was carried out. I also received a telegram last night on arriving at the hotel, from the secretary of the Montreal Tobacco Retailers' Association, approving of our help in the past. Just of recent months we have had occasion to co-operate with them to stamp out or practically stamp out a grievance among the trade in general, which was really becoming very grievous and detrimental to the whole trade. I might mention that this telegram was absolutely unsolicited.

Q. Yes, I understand?—A. I always have in my mind when you solicit something you can expect what kind of answer you get back.

Q. At any rate, you do support and your company has supported a price maintenance plan, as being the best method of merchandising in your industry?—A. Absolutely.

Q. And that has been your experience for years?—A. Absolutely.

Q. In your price maintenance plan, what allowance do you make to the jobber?—A. Well, the jobbers work on a 10 per cent basis.

Q. What allowance is made to the retailer?—A. The direct retailer who buys at the same price as the jobber, works on the basis of about 23 per cent, more or less; and the indirect retailer who buys through the jobber works on a basis of about 13 per cent.

Q. Has that 13 per cent been the percentage of allowance to him for some years, or has it been reduced to that?—A. It is the generally accepted allowance amongst the trade, and has been for years. I think on cigars it is a little better than that, not an awful lot, but a little better. But on cigarettes and tobacco it is that.

Q. May I ask you this, Mr. Hughes: When the excise duty was reduced from $6 to $4 on cigarettes, was there really any reduction by the manufacturers in the price of cigarettes, beyond the reduction of the tax?—A. Not for ourselves. We didn't. We remitted what we received, and that was all.

Q. You remitted what you received, and that was all. That is, you reduced— —A. Reduced the price in proportion of the exact amount of rebate of tax we received—reduction in tax.

Q. And that was on the excise, $2; and on the sales tax it was 12 cents?—A. 12 cents.

Q. So that the reduction that was made by your company was a reduction of $2.12 to the jobber?—A. Well, it may have been $2.13. I am not sure exactly. But there is a fraction of a cent that enters into the sales tax that you can't very well split.

Q. So that the reduction of $2.13 may have been just the passing on of the exact amount of the tax?—A. That is what we considered it.

Q. That is the way you considered it?—A. Yes.

Q. Is that the condition that existed throughout the industry; other companies did the same?—A. I can't very well speak for others, but I know they were selling merchandise at the same price we were before, and are selling at the same price to-day, so it must apply, I imagine.

Q. Then there was a reduction in a large number of the brands of cigarettes to the extent of $2.50 a thousand?—A. That is right.

Q. And the $2.12 or $2.13 was the reduction brought about by the tax. By whom was the 37 cent reduction borne?—A. Well, seeing as we didn't take it, it must have been the dealers.

Q. That is to say, there was not anything that came out of the various manufacturers?—A. I might mention this, if I might be allowed to elaborate on it: The percentage to the trade was slightly increased, a fraction. That is the percentage of profit on the actual sale, both as regards the jobber and the retailer, I believe also. But in actual dollars and cents, naturally they suffered a little.

Q. That is, the reduction in price may have given them a fractional increase in percentage?—A. Yes.

Q. But in actual dollars and cents they did suffer to the extent of 37 cents a thousand, at least?—A. Well, that is they suffered on the actual profit, in dollars and cents profit per thousand cigarettes; but then again I think it has been somewhat offset by the fact that cigarette consumption has slightly increased since that time.

Q. The hope was that it would be increased?—A. That was the object.

By the Chairman:

Q. Might I interrupt; your point, as I understand it, is that the percentage of profit to the jobber and to the retailer was maintained?—A. Slightly increased.

Q. Although the actual dollar value of the percentage might be lessened?—A. That is right.

By Mr. Ilsley:

Q. The manufacturer got just as much for his cigarettes and got the benefit of the increased consumption, didn't he?—A. That is right.

By Mr. Sommerville:

Q. That applies to the cigarettes. What reduction took place in the cut tobacco?—A. Well, on the cut tobacco and popular lines in general, some prices were reduced and other prices were increased. In the case of some lines where they continued to put booklets of papers in, they reduced the quantity of tobacco per package and continued with the booklet, and increased the price per pound; whereas in other lines the booklets were taken out and the quantity of tobacco increased to maintain the 10 cent unit price to the consumer.

Q. That was the method adopted with respect to cut tobaccos?—A. Yes.

Q. What is the price or the amount of the cost of the booklets per pound?—A. Naturally they would vary, depending upon the quantity you bought and the type of paper. Some were more expensive than others. I figure in our case booklets were costing us five or six cents to the pound of tobacco. There are different types of paper. Some are more costly than others.

Q. You say they cost five to six cents a pound?—A. That is what we figure.

Q. That is per pound of tobacco?—A. Yes.

Q. And when they were taken out, the tobacco was reduced in price to that extent?—A. The reduction in price was not altogether offset by the papers, but we figure by packing fifteens instead of sixteens there was a little less labour attached—one package less per pound. Your packing materials were a little less. We figured it about evened up.

Q. You packed one-fifteenth of a pound instead of one-sixteenth of a pound?—A. Yes.

Q. In that way the reduction was effected?—A. Yes.

Mr. Factor: There was also a two-cent tax put on these.

The Witness: On the booklets, yes.

By Mr. Sommerville:

Q. On the booklets that were left in?—A. On the booklets that were left in there was a two cents per booklet tax.

Q. But in the majority of the brands the booklets were taken out, weren't they?—A. Yes, I would say the majority.

Q. Was it not a fact, in general, that each manufacturer kept one or two brands with booklets in, but removed them from the balance of his brands?—A. I don't know what others do. I know in our case we have only two brands, to begin with. We kept them in one and took them out of the other. Our experience has been that the one without them has been the one that sells, and I think that is general amongst the trade, in general.

Q. Can you give us your quantities of leaf that you have purchased; have you come prepared with that?—A. You mean flue-cured?

Q. Flue-cured, yes. You don't buy direct in your company?—A. Not from the grower.

Q. With your flue-cured, you buy from the packers?—A. From the packers.

Q. Or the processing companies?—A. That is the idea.

Q. And on your cigar, you buy from whom?—A. We buy from the co-operative companies, St. Jacques; we also buy a little from the co-operative St. Cesaire, not an awful lot. Then, of course, there is our Havana tobacco.

Q. That is imported?—A. Yes, but I am speaking about domestic tobaccos.

Q. Perhaps you will be good enough to tell us your quantities?—A. Of flue-cured?

Q. Yes?—A. In 1931 we had a contract, through special order, through the Canadian Leaf Tobacco Company, Limited, for 298,147 pounds, green weight; also through the Consolidated Leaf of Kingsville, 328,983 pounds, green weight.

Q. At an average price of what?—A. The average price to the Consolidated Leaf was 29¼ cents per pound; and the average price to the Canadian Leaf was

24·69 a pound, making a general average on the two purchases of 27 cents per pound. That is of the 1931 crop.

Q. That was purchased at the close of the crop season?—A. Well, at the beginning of the purchasing season. Our order was in at the opening of the season.

Q. That was 1931. What about 1932?—A. In 1932 we didn't purchase through contract. We were advised by the packers that there was a big crop, and they advised us to wait, that our requirements could be amply taken care of later on, which we did. Later on in the year, during the year 1933, we bought 374 hogsheads from the Canadian Leaf Company, 334,841 pounds, dry weight. We also purchased from the Norfolk Leaf 99 hogsheads, with a weight of 86,470 pounds, dry weight.

Q. Dry weight?—A. Yes. From the Canadian Leaf we purchased at an average price, in the hogshead, at 31 cents per pound, and the Norfolk Leaf at 27 cents a pound, dry weight.

Q. Dry weight; and that was of the 1932 crop?—A. Yes.

Q. We have already heard that the average of that crop was about 16 cents, green?—A. Yes, green.

Q. Then what about 1933?—A. 1933, we purchased through contract again with Canadian Leaf, green weight, 342,462 pounds at an average price of 20.31.

Q. That is the total purchases for 1933. I think the only other average we had given us here was 19.3 by the Imperial?—A. I don't remember off-hand.

Q. Then, Mr. Hughes, what quantities have you on hand, in storage, of domestic leaf?—A. Well, I didn't exactly bring the inventory of that, but I would estimate that we probably have about 800,000 pounds.

Q. About 800,000 pounds?—A. Including the 1933 purchases. There are a few odd lots that we bought outside of this, that I have not got a record of here, just small lots, off and on.

Q. What are your usings of Canadian domestic leaf, Canadian flue-cured leaf? Perhaps you can give us that approximately?—A. I would say, roughly speaking, probably about 450,000 pounds.

Q. A year?—A. During the year 1933, the calendar year.

Q. In connection with the sale of your products, perhaps you will tell the committee just what the practices are that you have found affect the development of your business?—A. With your permission, if I may, before going into that, if I might pass a remark or two—I have been keeping a note of different things that passed since this committee has been sitting, and there are one or two impressions that I fear may have been caused, that I would like to have an opportunity of correcting, if I may.

Q. Very well?—A. To begin with, it has been mentioned on many occasions here that the Imperial purchased the cream of the crop. Naturally this impression being spread amongst the consumers, would probably lead them to think that for that reason they are able to turn out better merchandise. I would like to point to our average price of purchases as an indication that we have not been buying poor tobacco. For the 1931 crop, when we first became interested in this game, I have not heard any such average price mentioned as what we paid, because we were interested in cigarettes until at that time; and we gave specific instructions to the Canadian Leaf and Consolidated Leaf to buy the cream of the crops. That is one impression I would like to correct.

By the Chairman:

Q. As a matter of fact, would you say what you received was, shall I say, good or better or good or fancy?—A. Yes, I would believe it is the best that was to be procurable. As a matter of fact, of course you understand that from every packing, when you buy the crop run, you always get a certain percentage

of lower grades of tobacco which we, on account of not having any use for it, have disposed of, sold.

Mr. KENNEDY (*Peace-River*): Is the price you paid filed?

Mr. SOMMERVILLE: They have been given in evidence.

The WITNESS: I may be stepping on dangerous ground when I approach this question of the 20 cent duty on tobacco sold in the leaf, but I do not think that the committee has really had a proper impression of that affair. To be quite frank with you, the matter has been under consideration for some time. There was a meeting held during last winter some time in which it has thoroughly discussed, with the sole object of trying to help the Quebec tobacco industry.

By Mr. Ilsley:

Q. A meeting of whom?—A. Farmers, packers and manufacturers.

By Mr. Boulanger:

Q. Who convened the meeting? Who called the meeting?—A. I just don't remember off-hand now, to tell you the truth. I think it was one of the packing houses that were very much interested in the affair. At that time we were not interested in that kind of tobacco because we were not making any—we were not selling any cut pipe tobacco of Quebec origin. But at the same time, if you look at the past experience of the Quebec tobacco industry from the growers' standpoint, his position to-day is due to an absolutely declining market. At one time he was permitted to dispose of a large percentage of his crop because the cigar industry was prospering, for one thing. Besides that, there was a certain quantity of that tobacco being sold packaged, by manufacturers. Well, the cigar industry, owing to the depression, I suppose, started to slide off. He had less call for his tobacco, and I suppose to try and dispose of surplus crops he started this selling in the leaf. I admit that it has always been done, but not to the extent that it is done to-day. Naturally it has had the effect of the manufacturers losing interest in the product. At the present time their tobacco is being sold practically on the local market in leaf form; whereas if something was done to restrict the sale of that tobacco in leaf form on the local market, the manufacturers would be interested to get behind it and try and sell it in a Dominion-wide market, the same as other Canadian tobaccos are being sold. I am not trying to influence you in any way, but I think that that matter really needs more thought than what has been brought out or the views that have been submitted on it.

By Mr. Sommerville:

Q. You say that the price has fallen from 15 cents to 3 or 4 cents, and it has been due to the fact that sale has been confined to the local market?—A. That is the idea.

Q. And the fact that the manufacturers are not interested because of the nature of the competition?—A. That is right. Up to four years ago we ran our own packing house for cigar tobaccos, and right up to that time we paid as high as 34 cents a pound to the farmer for his tobacco.

Q. For the same kind of tobacco that is to-day being sold at 4 cents?—A. Absolutely.

Q. How do you account for that drop from that very big price to the very low price of to-day?—A. Those prices were being paid around 1919 and 1920 when cigar consumption was about three times what it is to-day. That is one thing. You know, there is nothing like supply and demand to keep the prices up.

Q. Your cigars were more largely in demand than at present?—A. Absolutely.

Q. In 1930 you had a price of 15 cents, and from that time it has slipped down very steadily, has it not?—A. Very steadily, practically so little demand for it now, that is why.

By the Chairman:

Q. Have you any statistics to show the increase in the sale of tobacco in the leaf?—A. No, no real statistics, no.

Q. Any estimate? For instance, did the conference of which you spoke arrive at any estimate?—A. None, to tell you the truth, or I would have gone into it in such detail as maybe others who were more interested in the branch have. Up until two months ago we never tried to market any such tobacco. I do know, for instance, it is being abused. I have had a storekeeper in Montreal tell me he has regular customers who come in and buy that tobacco twenty pounds at a time, and take it out and make cigars and sell them without paying duty on it, selling contraband cigars. I would imagine quite a lot has been taken care of that way. Then again other quantities of it are being sold as cut tobacco without any duty being paid on it.

Q. Have you any suggestion where the line should be drawn between the legitimate sale of the leaf, according to ancient custom, and this comparatively new method of surreptitious merchandise?—A. Well, Mr. Boulanger raised the point the other day that the farmers had always been used to smoking his leaf tobacco, and it would be a shame to restrict him from that at the present time. I do not think the manufacturers had that in mind at all. I remember distinctly that it was brought out quite clearly, I think in your own discussion, the farmers could grow tobacco for their own use, and they would not be subject to the tax of 20 cents a pound; and besides that, the tax of 20 cents a pound would not apply when it was sold to manufacturers for further manipulation on which he would pay the regular excise stamp duty of 20 cents a pound.

By Mr. Boulanger:

Q. What about the working man who has no land?—A. We tried to—

Q. He likes to smoke tobacco?—A. We are trying to give employment. If we can sell that manufactured tobacco, we would give more employment. If the working man has more employment, he would be willing to pay a few cents more for his tobacco. If he has no work, he cannot buy tobacco.

The CHAIRMAN: He gets it free, if he is on relief, I think.

WITNESS: I mentioned a moment ago we have always been in favour of price maintenance. I would like to add to that that I am also more or less in favour of the present methods of distribution as used in connection with the tobacco trade in general. I know lots of objections can be raised to why you should sell one man's product and not another's, and there are many reasons that can be given for it. Some of them are probably worthy of consideration, others not. But you know, there is one thing that is very important in the sale of tobaccos, and that is that they reach the consumer in good condition. For that reason we have always been more or less in favour of confining distribution within reason, to the wholesalers, because in that way the retailer buys his supplies more often, and they do not have the chance to lie on the shelves any great length of time and dry out, and reach the consumer in such a condition that he becomes prejudiced against that brand. Besides that, there are so many retailers that you could never consider trying to reach direct. There is always bound to be some that you cannot possibly consider, who would not buy in sufficiently large quantities, and your margins on tobacco products do not permit him—that is, ourselves, I do not know about others—to sell in small quantities; so that the method of distribution at present in use for me is ideal for the tobacco trade. I should like to go on record as being absolutely in favour of it.

By Mr. Factor:

Q. What line of distinction do you draw between the retailer who sells direct and the retailer that you will force to buy through the jobber—what are the qualifications?—A. Well, we try to base our decision in that as to whether or not location, for one thing, warrants it being sold direct. If it is a good location, whether he has a good turnover or your goods are going to turn over quicker and not deteriorate on the shelves. Naturally, a man's credit is another feature which enters into it. There are many things.

Q. Do you ever refuse to sell direct to the retailer or an intending purchaser who wants to pay for the goods in cash?—A. I guess we have. I do not remember any particular incident, but I would not be surprised if we had at one time or another.

By Mr. Sommerville:

Q. You endeavour to support the Distributors' Association in various provinces?—A. Yes, but we are not dictated to by them.

Q. No, I understand you; but you endeavour to support that method of distribution?—A. Surely.

Q. Through them?—A. Surely.

Q. And limit your direct customers in each province?—A. That is the idea.

By Mr. Factor:

Q. Have you ever refused to supply a jobber who does not comply—.—A. Yes, if he cuts prices or supplies cut prices. That is about the only means at our disposal to enforce price maintenance.

By Mr. Sommerville:

Q. That is one of the incidents of the price maintenance plan?—A. That is the idea.

Q. That is about the only measure of enforcement you have at your disposal.

Mr. Factor: The jobber who is willing to maintain prices does not necessarily have to belong to the association?

The Witness: Not at all; no.

By the Chairman:

Q. There is no question about that?—A. None whatever.

Q. I should like you to make that very emphatic.—A. None whatever. A jobber does not necessarily have to belong to the association to be sold.

By Mr. Factor:

Q. You do not contribute any money to the Jobbers' associations?—A. Not as a regular habit. As a matter of fact, I can only remember one incident where we did, and that was unsolicited. Now, while I have declared myself in favour of the general principles of merchandising, I am going to be just as frank and say I do not like some of the methods that are used I must say, to strangle opposition. The methods are so numerous it would probably take a week to enumerate them. I have taken note of a few of them. For instance, it is a foregone conclusion to successfully merchandise, to have your merchandise displayed is very important. That is one thing that we, and I presume all other independent manufacturers have a great difficulty in accomplishing. I think I can say without any fear of contradiction that some manufacturers' salesmen go around to the stores, and if they see our merchandise on display, they will take the liberty themselves to switch it in the back, and bring their own out in front, and the retailer dares not say a word.

Q. Why?—A. Because he is afraid of the consequences.

Q. Well now, what are the brands of cigarettes that you have, for instance?—A. Roxy, Duchess, and recently on the Toronto market, Grads.

Q. Recently on the Toronto market Grads?—A. Yes.

Q. You say competitors' salesmen check up that display and move them?—A. I would say this refers more particularly to cigars, as cigarettes as a rule are not displayed on the counter, only when a new brand is brought out. It refers particularly to cigars.

Q. In the matter of cigars, you have had a very large trade in the past, have you not?—A. I have.

Q. At one time you were the largest manufacturer of cigars in Canada?—A. I believe so.

Q. How does that operate? Develop that complaint?—A. Well they just seem to have the impression that nobody is entitled to any preferable spot on the counter except their own line.

By Mr. Kennedy (Winnipeg):

Q. Are special considerations given for that preference in the matter of display?—A. Not to my knowledge, except fear.

Q. On what grounds is that fear based?—A. Well, I think it is very easy to draw conclusions. That applies mostly in the case of accounts that they sell direct, through fear of being cut off, and in the case of accounts that they do not sell direct, on the promise that some day they may sell direct.

Q. Whether they sell direct or not, it would not affect the other firm whose goods had that preferred position in display if they would sell direct. What is the ground of fear then?—A. I just did not get that.

Q. You say a representative of one firm comes along and finds goods of a competitor displayed in a prominent position?—A. Yes.

Q. And exercising some influence, he has those goods put in the background?—A. Yes.

Q. Seeking for a reason you tell me there may be fear they would be cut off the privilege of direct purchase from the manufacturer?—A. Yes, that particular manufacturer.

Q. Suppose the party whose goods are displayed in the preferred position is selling direct?—A. Yes.

Q. What cause would there be then to remove them?—A. Yes. The possibility of lost sales of that particular cigar to the manufacturer who has already displayed, would be negligible compared to the loss of sales on the cigarettes and tobacco. The source of each supply would be stopped by the other.

By Mr. Sommerville:

Q. To whom are you referring?—A. The Imperial Tobacco Company.

Q. They say they supply from 60 to 75 per cent—A. Depending—

By Mr. Young:

Q. You know these things go on?—A. Absolutely.

Mr. Heaps: Have you any proof?

Witness: Yes.

By Mr. Young:

Q. I was in a tobacco store last night, and I asked the storekeeper how it was that he had several different makes of cigarettes in his window. He said, "My window is my own, I do as I like with it."—A. Fortunately, there are a few that still reserve their independence.

Q. He said, "Nobody bothers me."—A. He is an exception to the rule.

By Mr. Kennedy (Winnipeg):

Q. To what extent is that complaint real—I do not mean each individual case—but is it real?—A. Absolutely, practised generally.

Q. Can you name where that practice is—A. I can. I can name it; but with the permission of the Chairman, I should like to ask that if I give any, specific cases, that names be withheld, as I fear for the consequences to those people through their names becoming known.

By Mr. Sommerville:

Q. The retailers would suffer?—A. I think so.

Q. From the fact that they have given this information?—A. That is right.

Q. Is there any doubt in your mind of that?—A. No, unless a change of heart is brought about by what has come out in this committee.

Mr. Factor: Mr. Heaps asked you for the proof. You have the proof there, but you say you hate to divulge the names of men who have lodged complaints with you?

By Mr. Kennedy (Winnipeg):

Q. Will you give, confidentially, to the committee specific cases so that they can be investigated?—A. Surely, with pleasure.

Q. Otherwise, we are just dealing with fog?—A. Absolutely.

Mr. Factor: Read a few cases, and give the complaints to the Chairman in confidence.

Witness: Without mentioning names.

Mr. Sommerville: Without mentioning names. I see you have a handful of them there?

The Witness: Yes.

By Mr. Ilsley:

Q. There sems to be no motive for those retail merchants to tell anything but the truth?—A. I beg your pardon?

Q. Could there be any motive, any possible motive to tell anything but the truth in these matters?—A. I do not see any reason. This comes from Winnipeg.

> On investigation it was found that no contract had been signed between above and the "I.T." but the above had given their word to put the Imperial Tobacco line in their show case and to put Imperial display case on top of the counter. This was in consideration for the fact that the above were on the "I.T." cigarette list. The "I.T." also told them that if they wanted to continue to be on the direct list they would have to display Imperial cigarettes prominently, giving them 80 per cent display.

By Mr. Kennedy (Winnipeg):

Q. What special consideration were they getting for that 80 per cent display?—A. Being sold direct cigarettes.

By Mr. Kennedy (Peace River):

Q. What does 80 per cent display mean, eighty per cent of the favourable positions?—A. I think 80 per cent means 100 per cent.

By Mr. Young:

Q. Why do you say that?—A. Because we find in many cases we cannot get any display at all.

Q. I came down Bank Street this morning and I looked into 23 different windows displaying tobaccos, and I saw yours in some windows.—A. You may find the occasional one.

Q. And I saw Macdonald's in some windows, and I saw Imperials in most windows, but there were some windows in which Macdonalds predominated over Imperial; in the majority of cases Imperial predominated. I cannot see any justification for your remark that 80 per cent means 100 per cent.—A. Maybe if you were as conversant with the trade as I am, you would. The fact of your seeing some other manufacturers' goods occasionally does not prove that I am not right. If you were to make a thorough investigation you would find, I think, I am not very far wrong.

By Mr. Kennedy (Winnipeg):

Q. Suppose a manufacturer, we will say, Imperial, wanted an 80 per cent display, is there anything to prevent the Macdonald people coming along and saying, we will sell you direct because of our share of your display?—A. No, there is nothing to prevent them selling direct.

Q. Is it not a form of competition that exists?—A. If it was confined to the 80 per cent, it would be all right, but it is not done. In most cases it means the complete discrimination against other lines.

Q. The point I want to clear up is this: where a tobacco store, whether yours, Imperial, or Macdonald, comes along to me as a tobacco retailer and says, I want you to display our goods, give them preference, and we will put you on the direct list, could not another competitor such as the Imperial, or yourself, come along and make the same bargain? Does not that competition exist throughout the retail trade?—A. Yes, and it has been practised to some extent, but I will give you the result of the practice. We, or Macdonald and somebody else can come along and open up a direct account that has not been sold by the Imperial Tobacco Company, and nine times out of ten the result of the opening of the account is that the Imperial come around and sell them afterwards, and then we are out where we were before we started.

Q. Do competitors like the Imperial or Macdonalds' make the same complaints that you are making now?—A. Who?

Q. Do you find complaints made by the Imperial Tobacco Company or the Macdonalds about your company ousting them from preferred position?—A. We never had that luck. I wish we had.

Q. It comes down to this: Your company is the one that you find—I do not say what the merits are—that they have an edge on you in getting the business?—A. No, I would not say ourselves alone; no. I would not admit that. From what I know I believe the same thing applies to everybody else but themselves.

By Mr. Sommerville:

Q. Everybody but the Imperial?—A. Yes.

Q. In other words, they use the fact that sixty to seventy-five per cent of the products sold is Imperial, to force other people's goods out of competition in display?—A. I will recite a funny instance that occurred in Montreal about two months ago. I had a telephone call from the head window dresser of the Imperial Tobacco Company. He called me personally. He said one of our window dressers had taken out one of their windows before the allotted time had expired. I said, "Well, I do not know anything offhand about it; I will have a look into it and I will call you back." I went to the party who looks after the distribution of our windows in Montreal, and he said, "Yes, that is true, but did he say anything to you about the two he took out of ours this week?" I said, "No." I said, "What were they?" He cited the cases, and I called him back and I said, "What about those two windows of ours you took?" He said, "That is so, but it is two new direct accounts we opened up, and we are entitled to their windows."

By Mr. Factor:

Q. It is a fact, as Mr. Summerville suggests, generally speaking, the retailer sells between 60 and 75 per cent of Imperial products?—A. I have no actual figures on it, but I would imagine it is pretty nearly right.

Q. So that they have this, in addition to the other things, the retailer buys a substantial part of the products that he sells from the Imperial Tobacco Company.

By Mr. Sommerville:

Q. After all, if the retailer does not play with the Imperial, it is life and death to him; is it not?—A. Pretty near.

Q. As against you independents. If only 15 or 25 or 30 per cent of the business is in the independents' hands, his living really depends upon his sale of the Imperial Tobacco Company' goods?—A. Surely, Yes, it is.

Q. And that puts them in a position where they use that influence?—A. Certainly.

Q. And your statement is that they are using that to prevent the display of competitors' goods?—A. Surely.

Q. You were reading some of those letters?—A. I got a telegram this morning from Toronto, addressed to me at the Chateau Laurier:

> "Stickers put up stop Imperial claim we are interfering with windows, and they took them down stop No concrete proof stop Writing".

That is signed by my Toronto manager.

Q. Explain.—A. Gentlemen, I put a new cigarette on the market about three weeks ago in Toronto. I was up there last week for one day and drove around Toronto a bit. I saw nothing but Imperial streamers all over the city. I said to my man, "You have to go out and get some streamers; you have to put enough up where they are going to be seen, and make an impression." He said, "I need more men." I said, "Go ahead and get some men." That is the result.

Q. They were put up and taken down—A. Yes.

Q. You were quoting some of your material?—A. "On October 23rd, our representative, Mr. So and So, was into Mr. So and So's store at 66—" I nearly let the cat out of the bag there.

> —at about 10.30 a.m. Mr. Gagnon, Imperial Tobacco Company's salesman met Mr. So and So in front of his store, had a talk with him. When Mr. So and So came to the store, he told our traveller the following: one cannot do anything without the Imperial Company finding it out. I allowed L. O. Grothe Company to give a demonstration in the window of my St. Catherine Street store, and this traveller told me I should not have done that.

That is signed by somebody else. There are so many here it is hard to pick out a good one.

> October 24, 1930. Mr. So and So, such and such address, declared to our representative that the assistant sales manager and the traveller of the Imperial Tobacco Company called at his store and told him that if he stopped displaying all goods but their own, they would sell him cigarettes the very next day.

That is one that they were not selling direct.

Mr. HEAPS: From where?

WITNESS: Montreal.

Mr. SOMMERVILLE: The assistant sales manager?

WITNESS: Yes. If he stopped displaying all merchandise but theirs, they would sell him direct.

> Mr. So and So, proprietor, at such and such a cigar store, such address, stated to the writer, that Mr. Des Rosiers of the Imperial Tobacco Company came to his store and told him unless he took other manufacturers' cigars off the counter, that he would have trouble in buying any more Imperial Tobacco Company merchandise.

By Mr. Sommerville:

Q. Mr. Des Rosiers is a director of the Imperial Tobacco Company?—A. No, sir, a kind of local salesman. This statement was made in the presence of Mr. So and So.

> During a conversation, on October 30, Mr. So and So, proprietor of such and such an ice cream parlour, situated at such an address, stated that the Imperial Tobacco Company representative had told him he would have to take—

This is funny: it is not our own.

> —Benson and Hedges' case off his counter, and implied that if he did not, the Imperial would refuse to sell him direct. This man also told Mr. So and So that the Imperial Tobacco Company were giving him a living and protecting him and their merchandise would have to be shown on the front of his counter. Mr. So and So repeated these statements in the presence of So and So.
>
> Mr. So and So, at such a place, stated to the writer that the Imperial Tobacco Company representative intimated to him that unless he kept their show case on the front of his counter it would not be possible for him to buy direct from the Imperial Tobacco Company. He also stated the Imperial man told him he must buy cigars with each order; if not, he would have trouble in buying cigarettes.

Q. That is another practice?—A. Another practice. I can elaborate on that later.

Mr. FACTOR: Mr. Chairman, could we save time by having those complaints filed with you and counsel of the committee?

The CHAIRMAN: I think perhaps it would save time. Apparently Mr. Hughes has a number of those in his hand. If he would hand them in, counsel and staff of the committee could examine them, and we could make such verification of them as we desire.

The WITNESS: I would be glad to do that, but before doing so, I would like permission to read just one telegram. This is a telegram from western Canada that we received in regard to the distribution of cigarettes out there—I am sorry, I have not got it here.

By Mr. Kennedy (Winnipeg):

Q. For identification purposes I suggest these might be filed as an exhibit; is that agreeable?—A. You may keep them, if they are of no use to me now they never will be.

By Mr. Factor:

Q. I want to ask you, are these complaints general; or are they confined to one or two?—A. Oh no.

Q. From all over the country?—A. Yes.

Q. Have you any personal experience about these complaints; have they ever occurred when you were in the establishment of an independent, were you ever there when such practices took place?—A. I do not recall any. I very

seldom go out amongst the trade myself, mostly through representatives, through written statements, and such as these. Excepting one case I know in particular where I got a telephone call from a certain jobber saying that the Imperial representative had been up to his establishment that day and wanted to see his invoices and know just what that jobber was paying for other manufacturers' goods, and the jobber refused to tell him. He says the Imperial representative said, you had better make up your mind between now and to-morrow morning, because I will be back again. The following morning he came back at half past eight. I found out in the meantime and I put two men secreted in the room next door, who heard the conversation that went on. He said explicitly that he was sent there on instructions from the office, not on his own initiative, but he simply had to have that information. In the meantime that particular jobber's order had been held up for a couple or three days. When our representative stepped out and the man saw he was trapped, the jobber got him his goods that afternoon.

By Mr. Sommerville:

Q. That was a demand from the officers of the Imperial for a statement from that jobber of all the goods that he had bought from other manufacturers?—A. From other manufacturers.

By Mr. Ilsley:

Q. Would you say that this practice was so widely spread, to your knowledge, that it must have the approval of the executive officers of the Imperial Tobacco Company?—A. I have no doubt whatever. That man just said he was ashamed to act that way but it was ordered from the office. He said that the order was to obtain that information right or wrong.

Q. That is correct, is it Mr. Hughes; I do not know whether you answered that question or not?—A. I am of the opinion that they are so wide spread that they could not be otherwise than on the instructions from head office.

By Mr. Sommerville:

Q. Now, Mr. Hughes, perhaps you will be good enough just to summarize the complaints that you have, or the conditions you have found; you have dealt only with the one, display—the display of competitors' goods; perhaps you will give us the other practices complained of?—A. There are only a few different things. There is the display of merchandise, the display of advertising and in certain cases unfairness with distribution particularly on new lines.

Q. What do you mean, first of all, as to the display of advertising; what is the practice complained of there?—A. Try and influence the dealers about allowing us the use of their windows, or putting up streamers or window bases; advertising on trucks. I had an instance not very long ago where a jobber in Montreal was putting out a new truck and he came to us and he asked us if we wanted it; we said certainly, and sent a painter up there and he prepared a design and everything. We found out a couple of days afterwards, they said, sorry we can't give you the truck. We asked them what was the matter, and they said Mr. Desrochier had been up there. What has that got to do with it we asked them. He said, we have got to give them the truck.

Q. That is in Montreal?—A. In Montreal, yes. Then I have another case of a truck in Montreal, that carried our advertisement for two years. It has the Imperial advertisement to-day because that jobber was told that he had had our ad. on his truck long enough.

Q. Now, what do you say as to the destruction of advertising material?—A. The only destruction that really goes on is in the case of these streamers, where they tear them up. Where we do succeed in getting a window display they do not interfere with the material, they do not do us any damage there.

Q. But these streamers, the paper signs that you display on the window?—A. That is not a serious loss of material, but it is a loss of advertising.

Q. What has been your experience, take for instance in the city of Hull?—A. As our men put them up they tear them down.

Q. And was that in large quantity?—A. I had a man working on it for a whole week.

Q. Over in Hull?—A. Yes.

Q. And when you say "they," who do you mean?—A. The Imperial Tobacco representative.

Q. Do you learn that from the storekeepers as you go around?—A. I learn that from my local representative here. I do not think he would have told me unless he had proof of it.

Q. Does that condition that you find here also exist in Toronto?—A. You have the same thing happening in Toronto within a week's time.

Q. Oh yes, one of the telegrams you gave us this morning?—A. I might mention that my Toronto manager felt this so severely that he called me by long distance. I said, send me a wire.

Q. What do you say with reference to the questions that you have mentioned in addition to display advertising?—A. Well, they try to use certain influence and try to prevent distribution as much as they can.

Q. What do you mean by blocking distribution?—A. Particularly through the jobbers.

Q. Will you just develop to the committee what you are referring to when you speak of blocking distribution?—A. Well, co-operating as we do with the wholesalers throughout Canada, and trying to maintain prices in their interests and in the interests of the trade in general, we expect to be treated the same as any other manufacturers, large or small.

Q. Yes?—A. For that reason we expect when we put in a line of merchandise—we don't put out new lines very often, and when we do we give serious thought to putting them out; but when we do put them out we expect the same consideration as any other manufacturer. I had a case in Montreal not long ago. We were putting out a pipe tobacco and after it had been on sale for about a week or ten days I put eight men out to check up on the distribution, and they came back to me with all kinds of reports that such and such a storekeeper had called for it, but he could not get it from his jobber, the jobber said he was out—oh, they said everything. I naturally got in touch with the association and they said that they were distributing it. One jobber sent a representative to see, to buy a certain quantity a week after. He was told that it was out of stock. Now, if they had wanted to distribute that, only one package to each one of his customers, he would not have had enough tobacco to fill his supply. When the Imperial put out a new line, they fight their heads off to distribute it.

By Mr. Ilsley:

Q. The jobbers fight their heads off to distribute it?—A. You would conclude from that there is some authority, implied or real, trying to bring about this condition.

By Mr. Sommerville:

Q. Did you have any complaints from any of the other manufacturers about the Imperial?—A. No, unfortunately none of them are big enough to have any influence.

Q. What else have you, Mr. Hughes?—A. Well, I mentioned a while ago that I would come back to the reference that was made about being obliged to buy cigars. It has been brought to our attention on different occasions that jobbers were forcing the sale of Imperial cigars; and on inquiring the reason they said, we are obliged to take a certain quantity, we can't afford to keep them, we have got to sell them.

Q. The jobbers were required to take a certain quantity?—A. That is in order to have their supply of cigarettes and tobacco.

Q. The jobbers were required to take a certain quantity of cigars in order to get their other commodities; and that, you say, interferes with free distribution?—A. Naturally, if the jobber is over-supplied in one line, he is trying to sell that and he is not going to buy. It is not absolute public demand—that has some bearing on it, of course.

By Mr. Kennedy (Winnipeg):

Q. It is a case where the big fish eat the little fish?—A. That is it.

Q. And that practice has been going on ever since there were fish?—A. Yes. It may be we're fish to have gone into this business; however, now that we are in it, we have got to fight.

By Mr. Sommerville:

Q. Sometimes the little ones get away?—A. The smaller they are the better chance they have, I think.

Q. Yes, Mr. Hughes?—A. There is another serious complaint that I would like to bring out. Owing to the present economic conditions a lot of our retail tobacconists are not very flush with funds, and they are buying on a daily basis and paying cash for their requirements.

Q. Yes?—A. It has been our experience that where a retailer has not got just enough money to pay for his whole requirements, that independent manufacturers, let us say, are eliminated altogether instead of reducing the order proportionately. In order to bring the order within the scope of the amount of money that the indirect retailer is able to pay as cash, instead of reducing the order proportionately on all lines, they eliminate the independent man completely.

Mr. Young: Would not they have to buy the lines they sell the best?

Mr. Ilsley: They would, if they were not interfered with.

By Mr. Sommerville:

Q. That is your point. That is to say, if the retailer were free and not subject to this restraint, you feel that all the independents would have a very much better chance of developing their business?—A. At least they would have a chance to live.

Q. And of developing a competitive business in Canada?—A. Yes.

Q. At least a chance to live?—A. Which I think is necessary for the interests of your growers, and right down to the consumer.

By Mr. Kennedy (Winnipeg):

Q. You feel this restraint was forced on you?—A. I do.

By Mr. Sommerville:

Q. How would it affect the grower?—A. As I said before, it does not make competition, it is not supply and demand. If you have more than one purchaser in there, you have more than one purchaser to buy. There is only one real purchaser. If you had real competition it would very likely improve prices.

By Mr. Factor:

Q. Did you have any experience with a certain company which opened up in Toronto?—A. I do not wish to talk about anybody else but myself. I do not know that company and I prefer not to mention it.

By Mr. Sommerville:

Q. That was the firm that went into bankruptcy some six months after it started?—A. Yes.

By Mr. Sommerville:

Q. All right, Mr. Hughes, if you would proceed?—A. Just before I go: as I said a while ago there, we have always been in favour of price maintenance and I mentioned that within the last two months we had been co-operating with this retail tobacco association in Montreal to stamp out a very serious evil down there. As you know, at the present time we are all in the premium game. We are all giving premiums with our merchandise.

Q. Yes.—A. Some time ago some of the small merchants conceived the idea of giving a couple of extra cards with a package of cigarettes in order to draw trade to a store. It looked good to the man next door who started giving three, and then four, and it gradually increased until we had probably some 250 or 300 men giving aditional cards, giving as much as a complete series with a dollar purchase. Now, a complete series represents 15 cents on a dollar purchase, 15 per cent. Some of them that were doing this were buying indirect and doing business on a 13 per cent basis, giving 15 per cent away. I do not know how they did it, but they did it.

Q. A rapid method of liquidation?—A. In co-operation with the retail trade generally we have pretty well stamped that out, but in place of it other things are creeping in. For instance, certain stores have started giving away coupons with the proprietor's photograph on it, and when you get a certain quantity, you can go back to the store and get some merchandise with it.

Q. Yes?—A. Naturally, we took exception to that as being a measure of price cutting.

Q. Is not that against the trading stamps act?—A. I do not know. Anyhow we objected to that because we claimed that it was a mode of price cutting.

Q. Yes?—A. And they came back with the argument, we don't consider it that way, we consider it a premium; you are giving premiums free, why can't we do it?

By Mr. Factor:

Q. Where did they get the extra cards to give away?—A. Buy them from the public.

Q. You mean the merchant does?—A. Yes, he pays as much as 10 to 20 cents a series for them.

By Mr. Sommerville:

Q. Yes?—A. And at different meetings that were held by this retail association in Montreal, and which I attended, I frequently stressed the fact that the only way of stamping that out altogether would be to abolish the premium.

Q. Yes?—A. There is another thing to take into consideration if we look at it from the standpoint of the grower. We can all afford to pay the grower a little more if we do not have to put in premiums; that costs money.

By Mr. Factor:

Q. Who originated this premium idea?—A. I could not say definitely.

Mr. SOMMERVILLE: Cards and cigarettes are as old as you and I. I remember we used to get pictures of Delia Fox, and other celebrities.

The WITNESS: They were not redeemable at that time.

Mr. SOMMERVILLE: Oh no, they were keepsakes.

Mr. FACTOR: Just to look at. I would like it, Mr. Hughes, if you would file on behalf of your firm a schedule of the wages paid its employees.

Mr. SOMMERVILLE: The same as we have asked from the Imperial Tobacco Company.

By the Chairman:

Q. Will you do that, Mr. Hughes?—A. Yes.

The CHAIRMAN: Thank you, Mr. Hughes.

The Witness was discharged.

Mr. H. C. FORTIER, called and sworn.

By Mr. Sommerville:

Q. Mr. Fortier, you are a tobacco distributor in the Province of Quebec?—A. Yes, sir.

Q. With headquarters in the City of Montreal?—A. Yes, sir.

Q. And you distribute the products of the Macdonald Tobacco Company?—A. Yes.

Q. Tobacco and cigarettes?—A. Yes.

Mr. BOULANGER: Mr. Fortier is a jobber, isn't he?

By Mr. Sommerville:

Q. No, Mr. Fortier is not a jobber. You are a distributor?—A. Yes.

Q. And you distribute the Macdonald products on the basis of a commission?—A. A commission; yes, sir.

Q. A manufacturer's agent, in a sense?—A. Yes, sir.

Q. And you have been associated with the tobacco business in Quebec, for a great many years?—A. 31 years.

Q. As a matter of fact, I think it was a firm that was organized by your father that has been referred to here already as having been acquired by the Imperial Tobacco Company back in 1916?—A. In 1916.

Q. And you have been associated with the sale of the Macdonald Products throughout the Province of Quebec for how many years?—A. Since 1918.

Q. That would be some 15 odd years. Now, Mr. Fortier, will you tell this committee what are the practices you have found interfering with, or militating against the development of independent manufacturers in Canada in the sale of their tobacco product?—A. Well, Mr. Chairman, it is pretty hard to enumerate them all. We have found that where we have put a sign up for a man that the sign would be no sooner up than the Imperial Tobacco Company would come along and say, " we sell you direct, we are sorry now you have put up their sign since we can't sell you direct any more. That has happened in quite a few cases.

Q. Yes?—A. Then there is another case where in the City of Montreal in 1932, we arranged to give out a few packages of tobacco to the unemployed. This was done at a corner store in Montreal, the very next day these people were notified that they would have to buy Imperial goods from the jobber.

Q. That is, the firm that made the distribution?—A. No, we arranged for somebody to distribute in that store.

Q. Certain tobacco for the unemployed?—A. To the unemployed.

Q. And because they distributed this tobacco that was given by you to the unemployed this firm was notified that they could no longer get their goods direct from the Imperial?—A. Yes, sir.

Q. At the preferred direct discount?—A. Yes.

Q. They would have to buy their goods from the jobber?—A. Yes, sir.

Q. Which meant they lost the 10 per cent on all Imperial goods bought?—A. Yes.

By Mr. Ilsley:

Q. Were they actually compelled to buy through the jobber after that?—A. Yes, they bought through the jobber.

Q. And have ever since?—A. No, they were reinstated some months afterwards.

Q. I suggest, Mr. Sommerville, that the witness give us that name confidentially.

Mr. SOMMERVILLE: Yes.

By Mr. Sommerville:

Q. What other instances have you?—A. We have other practices where we are anxious to get some particular jobber's wagons painted, and we go to the jobber and we say, would you like to have us paint some of your wagons. The jobber turns around and says, I am sorry, Mr. Fortier, but if I have any of my wagons painted by you I am afraid the Imperial Tobacco Company will cut us off. That would mean they would have to buy from the jobber and lose their 10 per cent, and that would drive them out of business.

By Mr. Ilsley:

Q. Do the Imperial have wagons painted?—A. Yes, they have quite a few, sir.

By Mr. Sommerville:

Q. Yes—what else, Mr. Fortier?—A. Well, we have had a few cases where counter displays, where we have had our stuff on the counter and the Imperial come along and practically say, you had better take those goods off the counter, otherwise we would not be able to sell you any more. In other cases in lots of stores we have had our stuff on display and before the Imperial representative came around, the dealer would take the stuff off, and put the Imperial on to show that they were good fellows.

Q. And then I suppose after the Imperial man had been around they would put yours up again?—A. Absolutely.

Q. And that is evidence of the fear they have of the Imperial, isn't it?—A. Yes, sir.

Q. Is there any doubt at all, after your fifteen years experience, that the retailer does fear the Imperial if he displays the goods of a rival?—A. At one time the Imperial Tobacco Company had about 90 per cent of the trade, and the storekeeper would tell us, well, that is our livelihood and if we display your goods, we do so at the risk of losing the privilege of buying direct from the Imperial Tobacco Company, which would mean 10 per cent.

Br Mr. Kennedy (Winnipeg):

Q. Can't you answer that by saying, we will sell you direct?—A. We sell all these fellows direct, but we have been so small; we are getting bigger every day.

Q. Supposing you sell these men direct instead of the Imperial, is not that the answer to it; or is it that the public don't want your goods?

By Mr. Sommerville:

Q. Not all people want Macdonalds, you are hoping they will?—A. We are hoping they will. We are hoping that the hands of the independent will be strengthened.

Q. Then the situation is that because of the preponderence of the business of the Imperial, the retailer is afraid of losing the right to purchase these goods if he makes any display of your goods?—A. Yes, sir.

Q. What other practices have you found, Mr. Fortier?—A. Well, I came up here just to hear what was going on. We have become so calloused to the complaints that we have received, that I could not enumerate them all.

Q. These are the practices that have been going on over the whole Province of Quebec?—A. I would say so.

Q. Do you substantially support the evidence given by Mr. Hughes here? —A. Absolutely.

Q. And is it of such common practice that you feel that it cannot be carried on without the knowledge and approval of head office?—A. It must be with the approval of head office, because it could not go on the way it has been going on.

Q. And what is the effect of these practices on the smaller independents?—A. Well, it is pretty hard to say. The Imperial and our company are pretty big concerns. We notice when we bring out a new line that we do not get the support from the jobbers that the Imperial do.

By Mr. Ilsley:

Q. The Imperial's competitors seem to have gained on them?—A. Yes, we have gained in the last few years.

Q. Because you say at one time they did 90 per cent; to what cause do you attribute your gain?—A. Well, I think as far as we are concerned we had better distribution now than we had three or four years ago.

Q. I think we had the evidence of Mr. Stewart the other day that he had spent $7,000,000 in advertising?—A. Which helps a lot.

By Mr. Young:

Q. The Imperial must be losing ground, I think the volume of some cigarettes has been maintained very considerably through the sale of cigars?—A. We have gone up the last few years.

Q. They must have lost tremendously?—A. The government figures on cigarettes have been down the last couple of years.

By Mr. Ilsley:

Q. So far as this Macdonald's increase is concerned, it can be explained by the terrific advertising campaign?—A. To a certain extent, yes, sir.

The CHAIRMAN: Thank you, Mr. Fortier.

The Witness was discharged.

Mr. AUGUST C. PICARD, called and sworn.

By Mr. Sommerville:

Q. Mr. Picard, you belong to the Rock City Tobacco Company?—A. Yes, sir.

Q. What is your position?—A. Vice-president, executive looking after sales.

Q. And the Rock City Tobacco Company has been in business for —?—A. 35 years.

Q. Your father being in business before you?—A. Yes, sir, with Mr. Drouin.

Q. And what do you manufacture, Mr. Picard?—A. Special tobaccos, plug and cut tobacco—we went into cigarettes a little in the last three or four years.

Q. Special cut and plug tobaccos?—A. Yes, sir.

Q. And in the last three or four years you have gone into the manufacture of cigarettes?—A. Yes, sir.

Q. And what brand of cigarettes do you make?—A. Our principal brand is Spud.

Q. Your principal brand is Spud?—A. And we have another brand, Master Mason.

Q. And you have also developed, or gone into, the cut tobacco business lately; or were you always engaged in that?—A. We were in the pipe-smoking tobacco, but we have only lately gone into the fine-cut tobacco.

Q. For cigarette purposes?—A. In the last few years, yes.

Q. Now, Mr. Picard, when the excise tax was reduced upon cigarettes, what amount of reduction was made by the manufacturer?—A. The reduction of the excise.

Q. The reduction of the excise?—A. Yes.

Q. So the amount that was reduced was $2.00, plus the 6 per cent on $2.00, or $2.12?—A. Yes.

Q. I have not figured out how the 13 cents is arrived at, but it seems there must be a fractional basis between the $2.12 and the $2.13?—A. Yes, sir.

Q. But that is the net amount of the reduction?—A. Yes, sir.

Q. And any further reduction that took place to the consumer was taken up by the retailer and the distributor?—A. Yes, sir.

Q. And is that generally throughout the trade; is that the practice that was followed by the manufacturers generally?—A. Yes, sir.

Q. Then when the tax was put upon cigarette papers, I understand you took the cigarette papers out of most of your brands of fine cut?—A. Yes.

Q. And left them in one brand?—A. In two brands for us. But generally, nearly all the companies left them only in one brand.

Q. And as a result of that, it effected a saving to you of about how much a pound?—A. Between 4 and 6 cents.

Q. That enabled you to sell to the distributor; did you pass that on to the distributor?—A. We reduced the price of those brands by—I don't remember very well. I think 10 cents, of 7 or 8 cents.

Mr. Ilsley: How did that compare with the value of the cigarette papers?

Mr. Sommerville: The cigarette papers taken out were 4 to 6 cents.

The Witness: There were some brands we reduced more than that; but that is another question, I suppose.

By Mr. Sommerville:

Q. In your purchases of flue-cured, I observe you purchased of the 1929 crop 96,613 pounds at an average of 38.46 cents per pound; in 1930, you purchased 99,021 pounds at an average of 36.52 cents; 1931, you bought none; 1932, you bought 161,248 pounds at an average of 19.29 cents per pound; in 1933, you bought 431,932 pounds at an average of 16.47 cents; and then you bought some broken leaf and sand leaves, 802,267 pounds at 4.7 cents. Those have been your purchases?—A. That is purchases from the growers. We bought sometimes from the packers.

Q. These have been purchases from the growers?—A. Yes.

Q. Have you a plant for receiving them?—A. Yes, we have the Leamington Tobacco Sales Corporation. 75 per cent of the stock belongs to the Rock City Tobacco Company, 12½ per cent to the Drouin family and 12½ per cent to our family.

Q. That is operated at Leamington?—A. Yes.

Q. And through that plant you buy from the growers—A. For our own use, and we pack for whoever wants to have packing done.

Q. Then in addition to that, you buy off or process for any grower that may desire it?—A. Yes.

Q. Then, following up your purchases, the Rock City purchases of Burley, in 1929 you bought 47,780 pounds at 20 cents; in 1930, 70,041 pounds at 17.64 cents, average; 1931, 969,766 pounds at an average of 6.65 cents; 1932, 801,068 pounds at an average of 5.61 cents; and 1933, 155,500 pounds at an average of 6.21 cents?—A. Yes.

Q. How do you account for the very great drop from 17.64 cents in 1930 to 6.65 cents in 1931 in the price of Burley?—A. As far as we are concerned—

you will see what quantity we bought in 1930, 70,000 pounds—we bought only the highest grade. That is all we needed. We had a lot of tobacco of the medium grades, and we bought only the best grades at 17 cents. In 1931, we went on the market and bought the average tobacco.

Q. How do you account for the very severe drop that has taken place in the entire average of Burley?—A. Oh, well, we don't make the market. We buy it as it is.

Q. Who makes the market on Burley?—A. Well, the heavier buyers, I suppose.

Q. The heavier buyers?—A. Yes.

Q. And the largest buyer is the Imperial, is it not?—A. Yes.

By the Chairman:

Q. Would you go on the market and start buying before the Imperial started to buy?—A. I think we did that one year or two. We don't usually do it. We don't do it. We can't afford to do it.

Q. Why?—A. We don't buy heavy enough to compete with them; and they can buy at a lower price when there is no more competition. For a long time there were only two firms; the heaviest buyers in the market were the Imperial and Rock City Tobacco Company, and we used to buy pretty near half the crop.

By Mr. Sommerville:

Q. Then there was competition?—A. There was competition.

Q. And then there were good prices for the farmer?—A. Yes.

Q. Those were the days.

By the Chairman:

Q. Before we get away from that, what grade of flue-cured do you buy?—A. We buy the very best for a certain quantity, and then we go in the medium ranges, to blend them. Then in the last year we had to buy a lot of low-priced flue-cured to be able to compete with some other companies that were going out and buying those grades.

Q. Take your 1931 purchases?—A. We didn't buy from the grower that year.

By Mr. Sommerville:

Q. In 1932 you bought 161,248 pounds at an average of 19·29 cents?—A. Yes.

Q. That was 2 cents a pound more than we have had, so far, from the Imperial?—A. Yes. I heard Mr. Hughes a minute ago say he would like to correct that impression that the Imperial buys only the best tobacco, because I think for our best brands we buy just as good tobacco as anybody else, if not better.

Q. At any rate, you paid 19·29 cents?—A. Yes, that is the average of the amount we purchased from the farmer.

Q. In 1932?—A. In 1932.

Q. That was the average of 1932 dry, and the average for the green was about $16\frac{1}{2}$ cents?—A. Yes.

Q. Then in 1933 your average was 16·47 cents?—A. Yes. But there are tobaccos there that we bought at 23 cents. We bought the quantity we needed of the best grades that we paid 23 cents for; and then we went out and bought other grades.

Q. What flue-cured have you on hand, approximately?—A. Well, we have on hand, I suppose, one and a half million or so.

Q. 1,500,000 pounds?—A. I am saying that now from memory. I could not say the exact figure.

By the Chairman:

Q. That is within a narrow range of it?—A. Yes.

By Mr. Sommerville:

Q. What are your usings of flue-cured?—A. They are increasing from year to year, and I would not be able to tell you.

By the Chairman:

Q. What did you use last year?—A. Last year?

By Mr. Sommerville:

Q. Yes, approximately?—A. It is very difficult to say. I would not like to make a blunder.

Q. What are your total usings of flue-cured and Burley?—A. One and a half millions, about.

Q. About one and a half millions of flue and Burley?—A. Yes, Burley and flue-cured.

By the Chairman:

Q. Your holdings of tobacco to-day are not alarming, compared with what you use?—A. Oh, we are not scared.

Q. You are not at all frightened about it?—A. No. We didn't buy very heavy of Burley this year, because we didn't think we should go very heavy in Burley. We bought a little heavier flue, because our business has turned a little to flue, because we are going more in the cigarette tobacco business than we were before.

Q. You will hold that for what, 18 months or 24 months?—A. Oh, 24 months.

By Mr. Sommerville:

Q. Twenty-four months average?—A. Yes, or 30. We usually try to keep a 30 months' stock, so we won't be squeezed on the market if anything happens. At the same time we have to let our tobacco get a little older, because it is not good to use when we buy it.

Q. As far as you are concerned, you have no fear about the quantities that are on hand?—A. No. I would not say we will buy as heavy next year, because we never know what is going to happen. At the same time, we are not afraid of what we have. We can carry it; and then we have just about enough to keep us going in our ordinary way.

Q. Now, Mr. Picard, out of your particular experience in selling, perhaps you can give us some of your experiences of the practices that you meet in competition?—A. Sir, before I begin, if you will allow me, by an accident, this morning I went into one of the stores on Sparks street, and I was talking to a merchant there. He showed me where he had a request to answer whether they were in favour of price maintenance or not. He had a little piece of paper, typewritten, on which was marked, "Are you in favour of price maintenance?" There was a space to mark yes, and a space to mark no, and a space to sign the name. It is understood he was in favour of price maintenance. I only bring this up at all to have the opportunity of telling you as far as we are concerned we are very much in favour of price maintenance. In fact we co-operate as much as we can. Furthermore, we never went into the practice of selling even to canteens or relief camps at prices below the price we are selling to the ordinary jobbers or retailers, because we can't do it; because we sell our tobacco at prices such that we can't afford to cut them.

Q. You do approve of price maintenance as a method of merchandising in the tobacco industry?—A. Oh, 100 per cent; especially to-day with the small profits the retailer is getting. He would not be able to make a living if there is any cutting in the prices.

Q. He is getting 13 per cent now?—A. Yes. He is getting a little more than that from us. We give him 15 per cent. Even at that, I don't think we are giving enough. Because the habit before was that it was a gentleman's understanding, I think—or anyhow, years ago it was 20 per cent. Tobacco that was selling at 5 cents would cost the retailer 4 cents. Tobacco that would sell at 10 cents would cost the retailer 8 cents; tobacco that would sell at 15 cents would cost the retailer 12 cents. I think I am the only man here that knows that. I think I am the oldest man in the tobacco business in this room.

Q. But gradually that has been cut down so that the retailer's profit is 13 per cent?—A. Well, that began when the sales tax came on. They began taking a little off the retailer, and then next time a little more, and the next time a little more, until now he is starving. The profit to the retailer, by allowing 25 per cent,—if we take the sales in this country at $75,000,000, which we think it is, or thereabouts, and that the retailer gets 25 per cent of all the business, which is the average that the Imperial state in their brief, he would be getting about $12,000,000. If that is divided among 57,000 retailers, it is $260 a year each, or $4 a week each. Any retailer that sells $500 a week is a good retailer, $25,000 a year. At 13 per cent, that is $65 for him to pay his own salary, to pay his employees, to pay his rent and pay everything. Before, he could sometimes sell novelties, pipes and things like that. He can't any more, because they are given away as premiums, and the only thing he has to live on now is tobacco.

Q. What do you say, generally, is the position of the retailer, the retail tobacconist?—A. Very, very, very poor.

Q. At the present time?—A. Yes, very, very, very poor. Very dangerously poor.

By Mr. Ilsley:

Q. Did you hear Mr. Spafford's remarks on that?—A. I heard them, but I don't agree with them. I think he is in a very, very hard fix. I think the retailers in this country in another year or two will be out of business, every one of them.

By Mr. Sommerville:

Q. On the basis of the present conditions?—A. Yes. I know some retailers that are the best retailers in this country, and to-day they cannot pay their bills. They have been in business for twenty, twenty-five and thirty years. They own their business. They are getting a special 10 per cent discount; and even with that, they can't live to-day.

By Mr. Factor:

Q. What about the retailer that has to pay 10 per cent extra? He is still worse off?—A. He is pretty badly off. If the one with only 10 per cent can't make a living, the other one certainly can't.

By Mr. Young:

Q. Is that due to the falling off in business?—A. That is one of the reasons. But at the same time his margin of profit has been reduced from time to time. It is really the retailer that pays the sales tax. Well, there is part of it paid by the manufacturer, but every time the sales tax goes on, we increase the price to the retailer.

By Mr. Ilsley:

Q. When you started, how much did he get in place of the 13 per cent he is now getting?—A. It was an agreement. It is understood. It is a fact. It is the basis of the tobacco industry not only in Canada; in the United States it was the same, even on tobaccos. In the States there has been a lot of cutting of price in cigarettes. The retailer should get 20 per cent and the jobber 10 per cent. That is the figure that we should start on when we make our selling price, and then come along the line, or if we are going up, use the same figures. That was what it was until, I would say ten years ago or so. I don't remember very well the exact date, but I do remember very well—although I am a young man, I think—the day that the first we did, a 5-cent package of tobacco sold at 4 cents, a 10-cent package at 8 cents, a 15-cent package at 12 cents. There was always that 20 per cent. Then, in those days, cigars were selling at $36 to retail at $50. That went up and up, and now cigars are selling at $41 and some tobaccos are selling for—well, our average is about 15 per cent. But you see, we are not very heavy in cigarettes. If we were very heavy in cigarettes, we would be 13 per cent, the same as the others.

By Mr. Ilsley:

Q. You spoke about the retailer being starved. What about the jobber? How is he faring under the present system of distribution?—A. The jobber is not getting too much either.

Q. He is getting as much as he ever did; that is 10 per cent?—A. Well, there is a very, very small reduction of about—once it was about a half or so per cent. But we don't calculate our prices like the others. We give them a straight 10 per cent off the selling price. Others have two lines. We give a straight 10 per cent, so we consider they get 10 per cent, although they get a lot more from tobacco.

By Mr. Factor:

Q. You have a list of direct retailers, the same as the other manufacturers, who do not buy through jobbers?—A. Not belonging to us. We sell direct to retailers.

By Mr. Sommerville:

Q. You sell direct to some retailers?—A. A lot of them.

Q. Just as some other tobacco men sell direct to retailers?—A. Yes.

Q. But most of your business is done through the merchandising method that has been given in evidence here, through the jobbers?—A. Yes. We are not against the jobber; we are in favour of the jobber. He is very useful. In fact, we can't do without him. But the reason why, I think, that the business is going away from the jobber is because the retailer is starving; and to allow him a little more, we may put him on the list.

By Mr. Factor:

Q. That is why there is such a cry from so many retailers, particularly in Toronto, about being put on the direct list and trying to make a living?—A. Certainly, I have to admit here, as a manufacturer, that the profit to the retailer is certainly very unreasonable.

By Mr. Sommerville:

Q. Now, Mr. Picard, will you please tell us what are the practices that you have found militating against the development of the independent business?—A. Anything they can think of, and anything they can do.

Q. You say anything they can think of, and anything they can do. That is broad enough. That is a good start. Just develop that, please. Just tell

us what you mean by that?—A. Well, I don't know. Sometimes I really think the officers of the company don't know about it. It is a question of them driving their men. They drive their men, I suppose. That is the way that everybody, or the great majority of manufacturers do, I suppose. I don't know. We don't do it. I suppose that is the way it should be done. That is probably the reason we are not any bigger. Unfortunately they drive their men, and their men get so nervous and excited that they think they must upset everythnig in the way. They have 133 men, I heard them say this morning—I don't think that includes Tuckett's and B. Houde men.

Q. I don't think so either?—A. There are 133 men going around the country with 100 advertisers following them up, and reporting on them if everything does not turn their way.

Q. Wait a minute. What do you mean by that? You say there are 133 men, and you say they are 100 advertising men?—A. Yes.

Q. That is, the Imperial have 100 advertising men?—A. I am taking the figures that I saw in their brief.

Q. They have 100 advertising men; what is the job of these advertising men?—A. They are supposed to get space to put up signs, and supposed to put advertising matter in the stores, and supposed to make window displays, and supposed to check up on the salesmen.

Q. Check up on the salesmen?—A. Yes, and they are supposed to keep on putting the fear of God in the hearts of the retailers.

Q. They are supposed to keep on putting the fear of God in the hearts of the retailers. In what way?—A. In telling them that they will have to report them to the salesmen or to the managers of the branches.

Q. For what? They will have to report them for what?—A. Well, if they display any other people's brands, or if they have not got their share of advertising or their big lion's share of advertising, or if they don't do what they tell them to do.

Q. You spoke about checking up on the salesmen. In what way does that operate? What happens with that?—A. Well, you know, they have their advertisers going around making up windows and things like that; and the salesmen I am giving a personal opinion, you know—

Q. You have had some of their salesmen on your staff?—A. Yes.

Q. Subsequently?—A. Yes.

Q. You have had both inside and outside information?—A. Yes.

Q. Just tell me how it operates?—A. Well, these men go out there and they report to the manager if the store is not giving enough display, or if the salesman does not seem to have had enough hold on the merchant, or things like that. Then the salesman, being so afraid of losing his job in this situation, sometimes goes to extremes. Sometimes I think that the head office does not even know it, because I would not think they would allow things like that, purely and frankly. It is going too far.

Q. What is done by the salesman with respect to display, for instance, of other people's goods?—A. Firstly, they have instructions by writing or in conferences to see that their goods only, if possible, are displayed, if the man is not too independent. If the man is a little independent, he can put up a fight. But you know how it is; every body is expecting to go on that list, that preferred list. Their work is to see that their goods only are displayed, if possible; and if there is any displays on the counter, like in the country stores where they have their displays in cases in the back there, they are supposed to show the merchant how to display his goods, and they go up there and display the goods to the merchant, show them how they could display them better than the other fellows; and while doing that, they push the other fellows' goods behind and put their own in front—a nice point of view for the people that walk in, but not so good for the independents.

Q. What happens if their goods are displayed in the retail merchant's establisment? What have you found within your experience?—A. I had so many complaints about that, about the ways and means that they were using in these things, that we just simply told our salesmen, "Now, gentlemen, don't report that to us. Fight, make your own battle, because if we begin looking after all these things, we would not be able to do anything else." So we didn't think that there would be any place to report, or anything like that; but unfortunately when I got at the office on Saturday, I had a letter and if you will allow me, I will read it to you.

Q. Yes, go ahead.—A. Last week on my way back from Quebec, I stopped at the Imperial's office and had a chat with Mr. Spafford about Mr. Watson of Saint John. This letter was written on May 8, and I can tell you it was not requested; because our instructions to our salesmen are not to report these things, they are too heartbreaking, but to take their medicine: that we have enough of our own, and that they are not working—they are not supposed to be looking after what the other fellow is doing. They are supposed to be selling goods for us. I got a copy of the letter they wrote to you. This reads:

> I suppose you have Ned Tucartians' and E. P. Watson's letters by now. Mr. Watson received a letter from Mr. Miller, president of the Imperial, to-day, saying he had instructed Mr. Farry to put him back on the list again with no restrictions. He is certainly very thankful to you for your help.
>
> This Mr. Farry, manager for Imperial, is using regular gangster methods with the direct accounts here and has most of the merchants frightened to push or display opposition lines. I told you in my last letter that Harry Green was displaying 20 Grand and Leicester Square on his counters and in his windows for us, and Mr. Farry gave him the devil for it to-day, and forbade him from putting any other lines but theirs in his window when they dress the backgrounds. Mr. Green was telling me to-night that he would likely have to get me to take back the Leicester Square as he says he is afraid they will take him off the direct list, the manager told him so only in a different way, and I could name you several more, but they are frightened to write in like Mr. Watson.

The rest of the letter has nothing to do with it, excepting just at the bottom of the letter where he says:

> ....We have enough new lines to keep us busy on our territories for another five or six weeks. You may depend I will fight all I can, and I would not trade jobs with any other salesman on the road to-day.

That is the only way we can put up a fight, by making our men believe they have the best job in the world.

Q. Is this the condition which, out of your experience of years, you have found to be general in the trade throughout Canada?—A. Yes, from Vancouver to Sydney.

Q. And is it a fact, from your experience with retailers, that they are subject to this amount of pressure from the Imperial Tobacco Company?—A. Sir, to me personally there is not less than a thousand have told me. I travel around and go and see them once in a while.

Q. What is their fear, Mr. Picard? What is the fear of these retailers?—A. Well, there are two things. There is the fear of being cut off the list when they are on the list; and there is the fear of not going on the list some day, if they don't follow the instructions and the directions that they are told to follow.

Q. And these things are accountable for the condition that exists, the condition you have described?—A. Yes.

Q. You heard some one give evidence here about the purchase of cigars, one having to buy cigars in order to get other tobacco. What is your experience

in that connection?—A. Well, I must say it is not cigars; it is tobacco. The merchant is told, you won't get our cigarettes if you do not buy so many pounds of tobacco. The merchant, when he has the tobacco has to push it. He has to do everything he can with it. Then, that cuts out the other fellow.

Q. Cuts out the independent?—A. Yes. Mr. Sommerville, will you let me add something, as well, to what I said when we were talking about price maintenance.

Q. Yes.—A. We admit that the Imperial Tobacco Company is helping, in many cases, in keeping price maintenance, and it is a good thing; but sometimes for reasons of discipline, or when the merchants do not agree with what they say, they just come out there and let everything loose. Quebec city is in that position to-day.

By the Chairman:

Q. When you say " Let everything loose," what do you mean?—A. They sell in Quebec city to-day—not only our relief camps, but the canteens at the citadel are buying goods at $6 a thousand, when the retailers have to pay $8.64.

By Mr. Factor:

Q. From whom?—A. From the Imperial, and I think Macdonald's also. I do not know from whom; anyway, not from us. But furthermore, there is a special man or agent or whatever you want to call him, who is buying cigarettes direct or from the jobber, less discount price, and has a list of customers of about, I should say, probably—well, I heard they told me about 2,500; and these people pay $1 a year to be on that list and then they can get their cigarettes at cost.

By the Chairman:

Q. Whose cigarettes?—A. Well, those that I saw were Imperial Tobacco Company's. I do not say there are no others, but those I saw were Imperial. They buy cigaretes at 21 cents when the price is 25 cents.

Q. Your point is, this is in violation of the so-called maintenance scheme? —A. Yes, because, what about other retailers with all their customers.

By Mr. Sommerville:

Q. What is the reason for this condition in the city of Quebec to-day?—A. I think the reason is because the jobbers would not agree to form an association.

Q. You are agreeable to the method of distribution through jobbers and jobbers' association?—A. And jobbers and all that. We state that. We have advised the jobbers that we will agree to price maintenance, and that we agree even to go as far as to cut off anybody who cuts prices. What is happening? The associations insist on having lists of our customers, and things like that. That is not our agreement. They insist also in other places on having customers who were buying from us for twenty or twenty-five years directly, to be cut off the list; and that is not our agreement either. We could not do that, because of this reason: Take a province like Manitoba, for instance. If we take ninety accounts, the Imperial with two or three different companies will take 200 or 270.

Q. What do you mean by that? You say if you take ninety accounts in Manitoba, the Imperial will take 200 or 270? What are you referring to now? The jobbers' association is in operation in Manitoba?—A. Yes.

Q. Then the jobbers' association will agree to your taking ninety accounts that you sell direct?—A. Yes, the jobbers will allow ninety accounts of retailers that we are allowed to sell to direct. We are allowed to go and sell to these, whoever we please, in the province. We are allowed to do that.

Q. You are allowed to sell to these; that is their suggestion?—A. The first chance, the first place where the independents have not got, I would not say, a

show. That is the first place where the independent has not got the same showing, because of the United Cigar Store.

Q. Why?—A. The United Cigar Store for one.

Q. First of all, you say you would have no showing because the United Cigar stores are on the direct list of the Imperial?—A. Yes.

Q. Then, in addition to that, the Imperial will have ninety accounts?—A. Ninety accounts, Tucketts and go around—

Q. And they have ninety?—A. Yes, and the B. Houde Company come in.

Q. And they have ninety accounts?—A. That will be 270, but we will be allowed ninety, and the United Cigar Stores and all the same value, and so there is very little value in comparison to what they are for the Imperial Tobacco Company.

Q. Is that the plan that is in operation in any of the provinces?—A. Well, at the meeting of the jobbers' association in the West last February, this came up, and that was the objection I put to it. I said, if the Imperial Tobacco Company will make their three companies one company—

Q. And take ninety?—A. Ninety accounts for the three companies, it would not be objectionable to us; but they would not agree to that. They said they were different companies, and furthermore I may say that the other fellows that are not buying direct, they have their General Cigars and can sell them with discount and come in there and sell them at a discount for 200 or 300 cigars, and they tell them, we will sell your cigars at a discount on condition you do this and that in the store.

Q. Yes. What about the method of appointing somebody in the town to represent one firm, and then another firm, the Tuckett Company, and Houde, and Imperial or General Cigars; what information can you give the committee upon that?—A. I do not get your question.

Q. Well, have you had experience where one man is appointed to represent Tucketts, and another man appointed to represent the Imperial?—A. Yes, sir, in the province of Quebec, in one district of Quebec, the eastern district that is from Three Rivers east, what we call the eastern division of Quebec, we have had several complaints from our salesmen, where they tell us that in a town where there would be four or five merchants the Imperial Tobacco Company would go to one and say: We will make you our agents in the town if we get the whole of your window display, and then later on the Tuckett Tobacco Company will go to the next one, and B. Houde would go to the next one, and there would only be one or two left for the independents.

Q. Each one of those companies would go to different stores or different merchants leaving the independent rather in the cold, is that the position?—A. Yes, sir. I know of some instances in places where the independents had the run on the tobaccos, where they allowed them to run wild.

Q. What do you mean letting them run wild; do you mean where the independents were selling or had the sale?—A. Yes.

Q. And then the Imperial allowed their men to sell, run wild as you say?—A. Yes.

Q. Sell to everybody?—A. Yes, sell to everybody at a discount.

Q. At a discount?—A. Yes, at a discount.

Q. And that is against your price maintenance plan?—A. Yes. Another thing against our price maintenance plan, and the reason why Mr. Gibbs resigned as president of the association: They have the United Cigar Stores and they have what they call branch stores that belong to the people but who have the sign of the United Cigar Stores on the condition that they buy their goods, and the United Cigar Stores have sent them circulars telling them that the man who sells the most Turrets will get a cash premium of $300 or something like that, and the

man who sells the most of another brand will get another cash prize of so much, and Mr. Gibbs objected to that because he said it was against price maintenance.

Q. Well then what has been your experience with respect to window displays; have you had any interference with your window displays?—A. A few years ago we used to have some window displays but we had to quit.

By the Chairman:

Q. Why?—A. We could not get the windows, sir, we had no chance; it was just throwing money away, and we cannot throw money away. We would go in and we would get a display. Some of the merchants are very independent and are very nice, in fact, I would say the majority are very nice, but you know how it is. They would come to us and say: We are very sorry but we have made an agreement with the Imperial Tobacco Company that from now on they will have displays always ready for us, you come in and give us your display every two weeks and walk out and come back after a month, and they have their displays all the time—and other reasons like that.

By Mr. Sommerville:

Q. In connection with your display signs, you were in the habit of using a good deal of those for some years?—A. Yes we were.

Q. That is, your outdoor display signs?—A. Yes, and there again we had lots of trouble. I remember writing to the Imperial Tobacco Company asking them to discontinue some of these tactics.

Q. What do you mean by that?—A. Well, they were tearing down the signs, displacing them, or seeing that they were pulled down.

Q. And was that a general practice throughout your territory?—A. In different parts of the territory, yes, in Quebec.

Q. And as a result what did you do with respect to outside signs?—A. That is another thing. We wrote to the Imperial Tobacco Company a few years ago, and they wrote back to us, and they told us that it would be stopped and in some places they replaced them, but about three years ago the same thing happened, and the first thing we knew the local manager came and we met him at his office and had quite a discussion over it there, and he had the chief advertiser in and the chief advertiser said that he had not done it although I had affidavits that he had done it; while he was not there he had paid to have it done.

Q. Yes, you had affidavits to that effect which you produced to him at the time?—A. Yes, and that kept on until I got pretty hot and told them that if it happened again I would hire men to pull down theirs, but I am against that sort of practice, and when I walked out he said "The next time you have anything to do with the Imperial Tobacco Company don't write to the office for they have other things to do than read your letters."

Q. As the result of what you found with respect to the tearing down of your signs have you given up the use of these outdoor signs?—A. Yes. We have considered it two or three times since, but we came to the conclusion that it was nearly impossible and it was just throwing money away. We have come to the conclusion to put them back but we felt we could not do it.

By Mr. Senn:

Q. Mr. Picard, I suppose you in common with other manufacturers have been buying your tobacco more cheaply those last three or four years?—A. Pardon?

Q. I suppose you, in common with other manufacturers, have been buying your tobacco more cheaply those last three or four years?—A. Yes, sir.

Q. Have you been able to pass that benefit on to the consumer?—A. Yes. I may tell you that our prices in 1933 were 20 cents less than in 1932.

Q. Per pound?—A. Yes.

The CHAIRMAN: Mr. Spafford wanted to interrupt. I have no objection to your doing that, Mr. Spafford. What was it? If you have some specific point we will hear you, but we do not want to put you under examination now, because we are not through with our program.

Mr. SPAFFORD: Mr. Picard stated we are selling cigars and tobacco at special prices to canteens. While it did prevail it does not prevail to-day.

The CHAIRMAN: It did prevail but you have stopped it?

Mr. SPAFFORD: Yes, and Colonel Spry of the Department of National Defence will tell you that.

The CHAIRMAN: How long ago?

Mr. SPAFFORD: I would say within the last three weeks.

Witness retired.

A. G. MUNICH, sworn.

By Mr. Sommerville:

Q. Mr. Munich, you are a tobacco manufacturer, connected with the manufacture of tobacco?—A. Yes. I am president of Benson & Hedges.

Q. You are president of Benson & Hedges?—A. Yes, of Canada, Limited.

Q. And you manufacture cigars and cigarettes?—A. And tobacco.

Q. And fine cut tobacco?—A. Yes.

Q. And your head offices are in?—A. Montreal.

Q. And you have been engaged in the business in Canada for some years? —A. Yes.

Q. And have a general business from coast to coast?—A. Yes, sir.

Mr. FACTOR: How long has he been in business?

By Mr. Sommerville:

Q. How long have you been in business in Canada?—A. Oh, about 35 years.

By Mr. Boulanger:

Q. Where is the parent company?—A. In London, England.

By Mr. Sommerville:

Q. Mr. Munich, will you be good enough to tell the members of the committee what your experiences have been during these years of your experience in the industry in the practices of your competitors, or some of your competitors, in the merchandising of your product?—A. Well, of course, I am president of the company but I am not very actively connected.

Q. At the present time?—A. In the management of the affairs of the corporation; but I became president in 1926, and from that time on I figured that we should go into a different method of merchandising our product. That is, go to the general trade. Up to that time Benson & Hedges were dealing more exclusively with a certain class of the trade. The objection to that was pointed out to me by our manager at the time, that if we did anything of the kind we would immediately be interfered with by the Imperial Tobacco Company. Well, that statement appeared to me at that time rather ambiguous, and I could not see why the Imperial Tobacco Company should interfere in our merchandising program. However, we started on that policy and started to distribute our goods in as many stores as we could from coast to coast. Then the complaints began to come in from the travellers of the interference that they met with from the Imperial Tobacco Company. Unfortunately, every time it was the Imperial Tobacco Company that was interfering, it wasn't anybody

else. Well, I did not pay any attention to it, would not listen to the argument, and I blamed our sales manager, the men were putting it over on him, and that I did not believe the Imperial Tobacco Company, as a corporation, a large institution, would lend itself to such tactics as were brought to my attention. And this condition went on for some years until finally we had to take notice due to the fact that our business was gradually dwindling, and several instances were brought to my attention. As a matter of fact, I can only say that what the other manufacturers have just a few minutes ago stated was exactly the case with us.

By the Chairman:

Q. That has been your experience, Mr. Munich?—A. Absolutely.

By Mr. Sommerville:

Q. From coast to coast?—A. Yes, from coast to coast.

Q. And from year to year?—A. From year to year.

Q. Is it your belief, Mr. Munich, from your experience in the generality of the charge, both in area and in time, that these practices could not be continued without the knowledge and approval of the head office?—A. Well, I am rather surprised. Of course, I have only attended the meetings since yesterday, but I was rather surprised to hear some of the evidence of some of the officials of the Imperial Tobacco Company on the stand here admitting that they were not aware of the situation. I can hardly credit that.

By Mr. Ilsley:

Q. Mr. Spafford you mean, I suppose, Mr. Munich?—A. Yes. It does not seem believable, because it is such a well known situation that exists among all the dealers; they are all afraid; they are all frightened. You approach a dealer; you can almost say anything to him, but he is absolutely afraid of his life to do what is a certain thing for the benefit of the independent; they would like to, but they say: If I do that my bread and butter is going to be taken away from me, what am I going to do with my family?

Q. And is the dealer willing but afraid?—A. Absolutely. Then you take the indirect dealer, he is just in the same position, because it seems to be a method of baiting the dealer, holding a bait in front of him by getting him to believe that if he does the right thing with the Imperial Company's goods, promote the sale of the Imperial Company's goods, feature the merchandising of the Imperial Company's goods, and allow the proper display of advertising matter and all that, he will eventually get on the direct list, and that is a bait naturally which prevents the dealer from doing anything to help the independent but rather to do everything he can to oblige the Imperial Tobacco Company, and we are left—

Mr. Factor: Holding the bag?

The Witness: Yes, holding the bag.

By Mr. Sommerville:

Q. What are some of the practices that have been referred to by the gentlemen who have given evidence to-day?—A. Well, I have just an instance that was brought to my attention the other day in Montreal at our office by one of our salesmen; in the north end of the city of Montreal he had cultivated a certain new store who did a very nice business. That man has three windows. I think it is a corner store having one window on one corner and two windows on the other street. Our salesman was able to obtain two of these windows, and he was an indirect account. That is, he could not buy directly from the Imperial Tobacco Company but he could buy from a jobber indirectly, and naturally he

was trying to get on the list, because it is the object of every dealer to try to get on the list and get the extra 10 per cent, and it has been the reason of hurting our merchandising on the counter. As I say, we had two of his windows. Well, the other day we were notified to take our stuff out because the Imperial Tobacco Company had agreed to put him on the direct list and we lost out.

By Mr. Ilsley:

Q. Agreed to put him on the direct list?—A. Yes. Well they signed him up for five years on his windows. At least, that is what the dealer reported to us.

By Mr. Young:

Q. Signed him up on the entire window space?—A. Yes.

By Mr. Sommerville:

Q. That he give the windows to them for five years?—A. We have many cases where it is impossible, where the dealer would like to display our merchandise, but he has been compelled to take it off.

By Mr. Boulanger:

Q. Did you pay anything for the use of the window?—A. They didn't have to pay anything. You must bear in mind that practically 80 per cent of the dealers' business in tobacco represents Imperial Tobacco Company's merchandise, and the rest of it is distributed among the rest of the independent manufacturers. A large proportion of the rest of it goes to the Macdonald Company. We, the smaller ones, get the leavings.

By Mr. Sommerville:

Q. What is the effect of such a policy upon the development of independent business?—A. Well, I think the more I look at it the more I am convinced that it is just a matter of a very short time when the remaining independent dealers will be thrown out of business, and all the business will be in the hands of the Imperial Tobacco Company. It cannot be otherwise. I must say that if I were in the position of Imperial Tobacco Company probably I would do the same thing. I am not going to say I would not. I might do the same thing, it is human nature.

By Mr. Factor:

Q. It is a pretty low state of human nature, that is all I have got to say about it?—A. The way the situation is fixed to-day all you have to do is just to sit back and wait. We are all of us, I do not know any of our competitors' financial statements, I have never made any attempt to look at their financial statement, but I am quite prepared to make this statement to the committee: that every one of these companies must show a terrific drain on their resources to-day, and that is entirely due to the fact of that kind of competition that we manufacturers have to meet against the Imperial Tobacco Company; because, although we were always willing to limit the amount of merchandise compared with the Imperial Tobacco Company when the times were good, the dealer was able to pay us. They would pay promptly. But when times got bad, and the drop of consumption in cigars especially, the dealer finds himself forced—he must pay spot cash to the Imperial Tobacco Company for his product. Now, where is he going to get the money? The only way he can get that money to pay the Imperial Tobacco Company is to take my money, Grothe's money, or the Rock City money, or the Macdonald's money—take every small manufacturer's money and hand it over to the Imperial Tobacco Company; and we

have to stand a heavy loss. Our failures up to the period of the depression probably amounted to less than—I do not think they amounted to one per cent. To-day our failures amount to as high as 10 or 15 per cent.

Q. Yes?—A. All this we have to absorb, and that is the cause. I do not like to talk against the Imperial Tobacco Company, because we all have to run our own business, but I am quite satisfied—and if the Committee desires to verify all these statements that have been made by the Independent, it is quite possible for them to do so; because the situation is so clear that all you have to do is to go in to the dealer, and you can pick anyone out blindfolded; but he is afraid to talk, he is afraid to open up on the subject, because he realizes that indirectly or directly he is going to get hit. Probably I will be hit after this speech of mine, but I don't care; they are not big enough to frighten me as far as I am concerned.

By the Chairman:

Q. Tell me this, Mr. Munich: have you found these objectionable competitive tactics on the part of any of your other competitors?—A. No, I certainly have not. There is no question there is some competition between us naturally.

Q. I am speaking of objectionable competition?

Mr. FACTOR: Not that jungle competition.

The WITNESS: Not a single instance.

By the Chairman:

Q. One other question: do you think it is necessary in business to engage in these practices?—A. No, it is not. I think it is a detriment to the whole tobacco proposition throughout the Dominion. In the first place, if I understand the matter, this inquiry is largely with the idea of helping out the farmer, the source. Well, what is the result to-day?—A. To-day the prices for raw tobacco are dictated by the largest manufacturer. He dictates the price, and we have to follow suit and take the leavings. If we were enabled to trade in this country openly and sell our merchandise in competition with everybody else on its merits, I am sure that every one of our independents would develop our business inside of a year. And if we were able to do that, what would be the result? We would be in a position to compete among ourselves in the purchasing of raw material, and that in itself would create a far better situation with the farming community. But until something like that is done it will never be possible to make that statement very definitely. Gentlemen, you have not got the slightest conception of the conditions under which the Independent manufacturers are labouring to-day. You cannot realize it.

By Mr. Factor:

Q. We have some conception, from the evidence that has been given?—A. They have not even touched the true basis of that situation, it is alarming. It is alarming, and from the general standpoint it could not be tolerated.

By Mr. Sommerville:

Q. And from the retailer's standpoint, what is your observation, Mr. Munich; is it good for the retailer to be in that position?—A. No, it is not good for the retailer. It is not good for the retailer in this way: the retailer to-day is selling largely one product, and he has not got the ability of showing his merchandise the way he should show it. And then in addition to that it is not fair to the consumer, because the consumer has not got the ability of buying at all, or judging the quality of the different classes of merchandise. He is practically dictated to to-day into one class of merchandise. To-day the situation is that the average Canadian is forced to smoke a certain class of manufactured goods.

Q. Because of the prominence with which they are displayed?—A. Absolutely, yes. If the storekeeper gives prominence to our merchandise and happens to build it up, immediately something happens, sooner or later something happens as it has happened in the past. These things have been brought to our attention, and all of a sudden we find this man is not buying any more, not the same amount of product from us; and his reply to us is, well I have been told that if I do not buy so many cigars I will not be able to get my cigarettes. So that is not fair, and you cannot blame him. There is nothing to blame the retailer for, if he cannot buy cigarettes he is going to starve.

Q. That really means he is not a free agent?—A. He is not a free agent; oh no, far from it. It is very much changed.

By Mr. Senn:

Q. Have you a preferred class among your purchasers?—A. A preferred class?

Q. Such as was described?—A. Yes, we have a direct list and we have an indirect list.

Q. You think then that is not the cause of the difficulty?—A. No, because you see the indirect list as we consider it, is the very small dealer. For instance, there are many restaurants you know, or people who make a store out of a residence or a room on a small side street, and they are selling soft drinks, and all sorts of things and they handle a few cigarettes, and probably a few cigars. Well these small dealers are probably buying two or three packages of cigarettes at a time from one dealer, and they are probably buying four or five cigars because it is retailed out to them—they do not have to buy a box of 25 or 50, they will go out and buy a small carton of five. Well now, it would not pay us to sell a man that small quantity; therefore, that goes into the hands of the jobber.

Q. Yes?—A. We certainly would rather sell entirely through the jobbers, because our method of collecting would be so much easier. But that is where we discriminate, if you call that discrimination, between the direct and indirect account.

By Mr. Edwards:

Q. When the Imperial Tobacco Company put a dealer on the direct list, does that automatically put them on as an independent dealer?—A. Oh no, we have nothing to do with it; it does not automatically put them on with us, but we have many dealers on our direct list that the Imperial Tobacco Company have not got on their list; they have them as indirect.

By Mr. Young:

Q. You said a minute ago that if you had more competition, that is with small dealers buying—fair competition in the selling—that you would be able to pay the farmer more for his tobacco. Would you explain how you could do that?—A. I did not say that we would be able to pay more. I believe we would be able to pay more in this respect. To-day we are paying a big price for tobacco, far more than the Imperial Tobacco Company are paying.

Q. You pay more for your raw material?—A. We do, because you see they buy direct from the farmer. They have their own shipments and they sort out and grade that tobacco, and by getting it in bulk like that, they are able to grade it, and they are able to get it on an average price and they are able to dispose of all of their tobacco through their whole tremendous organization and business. Now, if we were all on the same footing, and were all doing a much larger business than we are doing to-day, we would be able to buy from the farmers and grade the tobacco. Listening to the evidence of yesterday, there is no question that the proper method of merchandising tobacco is the

method that applies in the United States; that is the auction method. When you have the auction method the farmer naturally has to grade his tobacco. He grades his tobacco, and if he can get 20 cents or whatever the price may be for that particular grade, all the better for the farmer. And it gives him this further incentive of taking care to grow a better crop. The method as applied to-day, in my mind, is all against that.

Mr. FACTOR: Mr. Chairman, do you think we had better adjourn?

The CHAIRMAN: Yes. Do you want anything further of Mr. Munich?

Mr. FACTOR: We are having the other witnesses back to-morrow, aren't we?

The CHAIRMAN: Yes, we are; in the afternoon, not in the morning.

Mr. FACTOR: Not in the morning?—A. No, I have to attend a meeting of the Agricultural Committee, if you don't mind.

Mr. SOMMERVILLE: Before we adjourn, I would like to have delivered to me the wage list of the Imperial Tobacco Company.

Mr. LANE: They are not prepared yet, they are in the course of preparation.

Mr. SOMMERVILLE: Could I have them in the morning?

Mr. LANE: I am sorry, it is physically impossible.

Mr. SOMMERVILLE: There are some that would be ready, I feel sure, at this time, and I would like to have them in the morning; those companies that are ready.

Mr. LANE: I will telephone to Montreal to-night and see what is available.

The witness was discharged.

The committee adjourned at 6.05 p.m. to meet again on Wednesday, May 16, 1934, at 3.30 o'clock p.m.

HOUSE OF COMMONS, ROOM 368,

May 16, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 3.30 p.m. Hon. H. H. Stevens, presiding.

Mr. Norman Sommerville, K.C., of Toronto and Mr. W. W. Parry, K.C., of Toronto, appeared as counsel for the committee.

The CHAIRMAN: Order, gentlemen. The minutes of the last meeting indicate the witnesses that were heard and certain documents that were filed. We will order the minutes approved as presented. The clerk of the committee desires to file a list of exhibits numbered 144 to 162 inclusive. They represent certain documents which have been laid on the table. I will not read the list because it is long.

EXHIBITS FILED

The Financial Statements of the following Companies:—

Exhibit No.

144.—The Tuckett Tobacco Co., Ltd. (years 1930 to 1933 inclusive).
145.—Hodge Tobacco Co. of Canada, Ltd (1929 to 1933 inclusive) together with Statement covering purchases of 1933 crop flue-cured tobacco.
146.—Dominion Tobacco Co. Ltd. (1929 to 1933 inclusive).
147.—Empire Tobacco Co., Ltd. (1929 to 1933 inclusive).
148.—James Kirk Limited (1929 to 1933 inclusive).
149.—The H. Fortier Company, Ltd. (1929 to 1933 inclusive).
150.—John Erzinger, Limited (1929 to 1933 inclusive).
151.—Scales and Roberts, Limited (1929 to 1933 inclusive).
152.—American Tobacco Co., Ltd. (1930 to 1933 inclusive).
153.—Punch Cigar Co., Ltd. (1929 to 1933 inclusive).
154.—Andrew Wilson & Company, Ltd. (1929 to 1933 inclusive).
155.—National Tobacco Co., Ltd. (1929 to 1933 inclusive).
156.—Liggett & Myers Tobacco Co. of Canada, Ltd. (1929 to 1933 inclusive.)
157.—Quebec Leaf Tobacco Co., Ltd. (1931 to 1933 inclusive).
158.—General Cigar Co., Ltd. (1929 to 1933 inclusive).
159.—The B. Houde Co., Ltd. (1929 to 1933 inclusive).
160.—United Cigar Stores, Limited (1929 to 1933 inclusive).
161.—United Cigar Stores (New Brunswick), Ltd., 1933.
162.—United Cigar Stores (Nova Scotia) Limited, 1933.

Now, to-day we have requested the Honourable Mr. Cahan, Secretary of State, and the Honourable Mr. Matthews, Minister of National Revenue to be present. The Honourable Mr. Rhodes, Minister of Finance, as the committee and others all know recently suffered a very sad bereavement and is not in the city and, therefore, has no knowledge of the request to be present to-day, but, no doubt, if it is desired he will be available later.

Counsel for the committee advised Mr. Stewart—and later he will read into the record the telegram which he sent—that we would meet to-day and the

Ministers would be here, and he replied indicating that he had no further desire to be present and would be quite satisfied with whatever statement was chosen to be made by the Ministers; he had nothing further to add. I am sure we appreciate the attendance of the two Ministers who are present with us. Counsel for the committee suggests reading these short telegrams first.

Mr. SOMMERVILLE: The first is a telegram to Walter Stewart dated Ottawa, Ontario, May 14, 1934, which reads as follows:—

> Your letter received and read to the committee stop The Prime Minister has requested that you be given every opportunity to ask the Ministers to whom you referred the questions indicated by you in your evidence and in your letter stop These Ministers will be requested to be present next Wednesday afternoon for the purpose of affording you that opportunity you desired stop Possibly Mr. Rhodes who so recently suffered such a sad bereavement in the death of his wife may not have returned but it is expected the other Ministers will be available.

That is signed by myself as counsel for the committee.

This telegram was received from Mr. Stewart dated at Montreal, May 15, 1934, addressed to myself:—

> Your telegram received and I wish to thank the Prime Minister for giving me every opportunity of asking the Ministers to whom I referred the question indicated by me in my evidence and my letter stop If I went to Ottawa I could only reiterate the question mentioned in my letter stop I will be satisfied with an answer to that question without further attendance before your committee.
>
> Signed Walter M. Stewart.

The CHAIRMAN: Perhaps I might first read the question to which he refers as indicated in his letter and what was stated when he was on the witness stand:—

> I would have liked to have asked the Minister—

naming the three Ministers—

> —if they could tell why other manufacturers had advance information of the changes in excise duty.

That is the question. Now, Mr. Cahan and Mr. Matthews are here, and I am sure the committee will welcome a statement from Mr. Cahan first.

Hon. Mr. CAHAN: Am I on oath?

The CHAIRMAN: Not necessarily.

Mr. YOUNG: We will accept your word for it.

Hon. Mr. CAHAN: Mr. Chairman, so far as I am concerned, when I read the evidence of Mr. Walter M. Stewart I had no recollection whatever of any such decrease in excise duty as was then under consideration by this committee. I was a member of the executive committee that discussed reductions in customs tariff at the time of the Imperial Economic Conference, but I was not, until that date, aware that a reduction in excise duty had been made such as appears in chapter 8 of the statutes of 1932 and 1933, which Act was assented to on the 25th of November, 1932. I do not think it is necessary for me to tell this committee that never directly or indirectly, by any oral or written communication or in any way whatsoever, have I ever revealed to any person any matter that was being discussed prior to the bringing down of any budget since I have been a member of this government. That is clear. But I was intrigued by the fact that I did not recollect anything about this particular reduction in excise duty;

therefore, on looking up the debates I found that the House opened on October 6, 1932, that the late honourable Mr. Ryckman introduced his Bill to make this reduction of November 3rd, that it then passed its second reading on November 7th, 1932, and that it was assented to on November 25, 1932, and my entire ignorance was accounted for by the fact that I was appointed a delegate to represent the government of Canada at the Geneva Assembly of September, 1932; that I sailed from Quebec on the 17th, I think it was—I have a note of it—yes, on September 17, I sailed from Quebec; that I had other duties abroad in connection with the second special assembly of the League of Nations in December, and at the time I was negotiating a trade treaty with France; and that I did not return to Canada until early in February, 1933—I think the 6th day of February, 1933—and, therefore, these were matters entirely beyond my knowledge in any way, as, when I was away, I was so very busy. I did not receive the Canadian newspapers and I saw, really, only such Canadian news as was published in the continental papers and occasionally in the London Times.

On reading the Statute it was brought to my attention that this enactment, chapter 8 of the Statutes of 1932-33, although it was assented to on the 25th of November, 1932, was made, in respect to the reduction in cigarette excise duties, retroactive to the 13th day of October, 1932, which seemed to me to preclude any possibility of premature information.

The CHAIRMAN: Which is about two weeks before the date of its introduction.

Hon. Mr. CAHAN: Yes, nearly three weeks before. I would like to say one thing more, that for two summers I acted as the Minister of National Revenue during Mr. Ryckman's illness. I sat by him in the House of Commons, I sat by him in council, and during two summers when he was ill I was administering his department, and I saw the precise way in which that department was administered, and it would be impossible to convince me that any revelation was made by him with respect to any prospective change in duties, excise or otherwise.

The CHAIRMAN: Thank you, Mr. Cahan. Mr. Matthews is here. Although Mr. Matthews was not the Minister of National Revenue at the time, he is the Minister of National Revenue now and that was the Minister referred to by Mr. Stewart. So we will hear Mr. Matthews.

Hon. Mr. MATTHEWS: Mr. Chairman, the change in duties referred to took place in 1932. I was appointed Minister of National Revenue on the 6th of December, 1933, and, therefore, it is quite obvious that I could have had no knowledge whatever of any contemplated change in duty before I heard this matter read in the House of Commons. I do not know, Mr. Chairman, that I need say anything further than that.

The CHAIRMAN: Counsel for the committee has a word to say. It has already been referred to by Mr. Cahan, but I think it ought to be put clearly on the record in justice to the memory of the late Mr. Ryckman who was Minister at the time and so there may be no conceivable doubt in anybody's mind as to anything of an improper nature having occurred in connection with this matter.

Mr. SOMMERVILLE: The Bill which I have before me was the Bill in the form in which it was introduced as Bill No. 7, "An Act amending the Excise Act," introduced by the late honourable Mr. Ryckman on November 3, 1932, retroactive, as the Honourable Mr. Cahan said, as of the 13th of October, 1932. So that even if it were conceivable that somebody did know a day or two days or three days even or many days before it would make no difference whatever to the manufacturers since the Act came into force and effect as of the 13th day of October and the reduced tax was in effect from that date, some

three weeks or more before the date. The reasons given by the Honourable Mr. Ryckman for the introduction of the Bill are set out, when the Bill was receiving its second reading, in Hansard at page 883 on the 7th day of November, 1932. The Bill deals with the duties on spirits and cigarettes. Mr. Ryckman says:

> The occasion for it is brought about by the agreement which was entered into with the United Kingdom. It will be noted from the schedule of the agreement that the Customs duties on spirits were reduced from $10 right across the columns to $8 British preferential, making a reduction of $2 per gallon.

And then it goes on to deal with the question of spirits and the reduction of the tax on spirits to bring the reduction into line with these preferential duties. Then on the same page Mr. Ryckman says:

> The next and last item that the Bill deals with is cigarettes. As the schedule will show, we made a change in the preferential tariff on cigarettes at the instance of representatives of the United Kingdom. That tariff was changed from $4.10 per pound and 25 per cent ad valorem to $3.50 per pound and 25 per cent ad valorem. It was thought necessary toa strike a proper ratio, and it will be found, if you work it out, that in all cases the difference will be at least $2, depending upon whether 3 pounds or $2\frac{1}{2}$ pounds of tobacco go into a thousand cigarettes. I believe this will not result in a great loss in revenue. In the first year there may be some loss, but I would hope that in the second year it would be made up. I believe the law of diminishing returns applies here. Due to the fact that cigarettes have been smuggled, and that many are rolling their own, the revenues from this commodity have fallen off. I believe members of the committee will be surprised to learn that 75 per cent of the fine cigarette tobacco manufactured goes into what was known as roll-your-own cigarettes. I believe that those who make their own cigarettes will feel that they may purchase manufactured cigarettes at a reasonable cost. May I point out that all we get from that source will mean a gain of $3.40 a thousand in the amount collected by the Department of National Revenue. I would hope that what might be a loss brought about by this deep cut in the tax on cigarettes will be made up at an early period through the plan suggested in the Bill—cheaper cigarettes.

Then Mr. Euler says:

> Concerning the reduction in the excise on cigarettes I favour the action taken by the Minister. In fact, I hazard the opinion that he has not gone quite far enough.

And on that date the Bill received second and third reading and was adopted.

The Chairman: And it was retroactive.

Mr. Sommerville: And it was made, as the honourable Mr. Cahan says, retroactive to the 13th day of October, 1932, and there therefore, could be no possible or conceivable loss or inconvenience occasioned to any manufacturer for any want of knowledge if such did exist with reference to the Bill.

The Chairman: Now, gentlemen, that, I think, should end this incident inasfar as the committee is concerned. I think it was most unfortunate in its inception, but it seems to me there is nothing more to say about it that can be usefully said.

Mr. Heaps: May I try to obtain a little information. I believe at the early part of these proceedings you made a statement to the committee that you intended to proceed with an inspection of the textile industry. May I ask if it is the intention of the committee now to proceed with the investigation of the textile industries, or has such investigation already begun.

The CHAIRMAN: The committee will have an executive session shortly and we must go into the whole question of what we can possibly cover in this investigation. The work we have in hand is enormous, and I am exceedingly anxious that we shall at least complete what is in hand, and there are two or three matters of considerable importance that will have to be discussed and considered, and that particular question will be considered at that time and a statement will be made later.

Mr. HEAPS: Up until now there has been nothing in regard to investigating the textiles.

The CHAIRMAN: I am not in a position to answer that question definitely, as to what extent the audit has taken that into consideration, but I will be able to do so. We will have an executive meeting in a few days, at the convenience of the committee, and we will go into that and other matters.

Mr. HEAPS: There has been an investigation of the needle trades. I do not know whether it is completed or not.

The CHAIRMAN: Yes.

Mr. FACTOR: You will remember some weeks ago at an executive council the request was made that the textile industry be included in the investigation. We agreed on that.

The CHAIRMAN: Yes. I want to discuss the whole situation with the committee.

Mr. SOMMERVILLE: Yesterday, you remember, the request was made by Mr. Thomas that he file with the committee a statement of the various grades into which tobacco was graded by his company. That has been handed to me and will be filed.

(Statement of grades filed, marked exhibit 163.)

You will remember also that requests were made by Mr. Stewart when he was here that he file a statement showing the price changes on cut tobacco and cigarettes of various brands and in their various quantities between the year 1929 and the year 1934. I have that schedule which has been submitted by Mr. Stewart, and I am filing it at the present time.

(Schedule filed, marked exhibit 164.)

At the same time Mr. Stewart was asked to file a statement of wages and hours of labour showing the changes, if any, that had taken place since 1929. This statement has been forwarded and is now being filed.

(Statement filed, marked exhibit 165.)

This will be considered by counsel when preparing the material for further investigation. May I ask Mr. Miller if he has the wage schedule of the Imperial Tobacco Company?

Mr. MILLER: Some of them.

(Statement filed, marked exhibit 166.)

Mr. HEAPS: Have they covered all the phases?

Mr. SOMMERVILLE: They have covered all the various occupations in the factory back to 1929, Mr. Heaps.

Mr. MILLER: That covers part of the Imperial factory and needs some explanation. Others will come along. We will submit them when they are ready. There are various changes from day to day and time to time according to the different kind of package which needs a lot of explanation. We have not the explanation ready.

Mr. SOMMERVILLE: When would this be ready, Mr. Miller?

Mr. Miller: I don't know, Mr. Sommerville; we are doing the best we can. There have been a tremendous lot of statements you have asked for. We have tried to do the best we can. I could not say just when, but as soon as they are prepared they will come along to you. We may mail them on as fast as we can.

Mr. Sommerville: I would like to have the various subsidiary factories this week if it is at all possible.

Mr. Miller: All right. We will try to do it for you if it can be done.

Mr. Sommerville: This shows the rate that is being paid, the piecework rate?

Mr. Miller: Yes, and also the other work.

Mr. Sommerville: Does it show the total per week?

Mr. Miller: No. We are working on that.

Mr. Lane: It is only the rates of wages paid by the respective departments and it is subject to fluctuation from time to time arising from the change in the processing—either of the mechanical processing—

The Chairman: Give us a typical payroll.

Mr. Lane: That is what we are trying to prepare, but it is a large order.

Mr. Sommerville: I thought it was a matter of keeping one week's payroll.

Mr. Lane: You can have a payroll if you wish it.

Mr. Sommerville: That is exactly what we wish.

Mr. Lane: Very well. That is not what you asked for; you asked for the rates of wages. Please understand, we are not objecting to giving you anything you asked for, but we cannot accomplish the physically impossible.

Mr. Sommerville: No, but we asked for a weekly wage roll.

Mr. Lane: For each week? For 52 weeks?

Mr. Sommerville: No. We asked you to pick out some average weeks or any weeks over a period for 1933.

Mr. Lane: By departments—for various operations?

Mr. Sommerville: By whatever method you divide your various employees up in your own factory. Just give us a copy of your wage scale.

Mr. Lane: You want each individual employee's payroll, or a summary of it?

Mr. Sommerville: I am sure it is carried through in each employee's case.

Mr. Lane: If you tell us specifically what you want.

Mr. Sommerville: Here is the kind of thing sent to us from Macdonalds covering 1,200 employees.

Mr. Lane: This is merely the rate of wages. There is no total wage in this at all. Your headings on this are "Rate of wages per week," "Hours of labour per week," "Number employed, male and female, 1929, 1930, 1931, 1932, 1933." If that is what you want we can prepare it readily for you.

Mr. Sommerville: Those are the wages paid.

Mr. Lane: The rate of wages paid, not the wages paid.

Mr. Heaps: Does not that show us exactly what the person obtained?

Mr. Lane: No. It does not; it shows the rate of wage he is paid making plug tobacco; the rate of wage per week ranges from $18, $12, $11 and $10. That is 1929. The next item is wrapping the finished plug, rate of $11 per week; girls under 18, $9; stemmers, boys and girls, $6; stamp cutters, boys, $11.

Mr. Senn: Does it not give the hours of labour?

Mr. Lane: Fifty hours per week.

Mr. Heaps: It does not show what they actually received?

Mr. LANE: It does not. I am quite prepared to give you anything you ask for, but I understood you wanted the actual wages paid per week.

Mr. SOMMERVILLE: That is it.

Mr. LANE: A fair sample week, but not necessarily the rates paid per week, and, in addition, you did ask for the rates paid per week.

The CHAIRMAN: Naturally, I think one calls for the other.

Mr. LANE: Quite right, Mr. Chairman.

Mr. SOMMERVILLE: Mr. Miller, in your brief you referred to certain statements which you have of typical cases of cost of production. On page 48 you say, "We have in our possession certain statements indicating the cost of production on various farms." I wanted to ask you if you will be good enough to let the committee have your statements?

Mr. MILLER: They were given to us in confidence. I do not know about the question of the names involved.

Mr. SOMMERVILLE: Remove the names and give us the farms.

Mr. MILLER: All right. We will do that.

ARCHIBALD LEITCH, called and sworn.

By Mr. Sommerville:

Q. Professor Leitch, there has been some discussion this week on the question of surplus and production and quantities. Having knowledge now of the use of flue-cured tobacco in Canada during the last week, will you be good enough to make a statement to the committee respecting that whole situation? I remember when you were before the committee before you intimated that without a knowledge of the exact usage you could not make a complete statement with respect to that production that otherwise would have been made?—A. As far as my memory serves me, the use of flue-cured tobacco in the Imperial Tobacco company which, I presume, includes the usage in all their factories and subsidiaries, 8,800,000 pounds in round numbers. Mr. Stewart, in giving his evidence—I have not read a copy of his evidence—but what it said in the newspapers—slightly over 2,000,000 a year for the last year stated. The combined totals given by the smaller manufacturers in evidence indicates something like 1,200,000 pounds. That is the Rock City and Grothe, although Mr. Picard's statement as to the actual usage was—

Q. About half a million pounds?—A. A little better. He said it in another way. He mentioned as having on hand one and a half million pounds which he thought was about two years' usage. From some little personal knowledge I have of the total purchase on Grothe's account I would say their usage is around one-half million, maybe slightly less. Among the small manufacturers scattered all over the country, the best information we can get, especially from those people like the Canadian Leaf who handle a lot of tobacco, is that the combined usage of all the little manufacturers other than those mentioned is somewhere at or about a million pounds. That makes a total for the principal manufacturers of 13,000,000 pounds dry weight. Now, possibly some of these figures are exaggerated a little bit; allowing for that it would seem to indicate 13,000,000 pounds—in the neighbourhood of twelve or thirteen million.

Q. Dry weight?—A. Dry weight. I would say that the average shrinkage differential between green and dry would be 12 per cent. That would indicate between 14,500,000 and 16,000,000 pounds a year.

Q. Growing weight, usage in Canada?—A. Yes. That coincides fairly well with all the information we can get from government sources. Up until the present time we have never had as detailed information as this presented. Any-

where between fourteen and fifteen million pounds green weight. Now, that would about represent the usage of last year. That rate has been increasing quite rapidly in spite of the decline in the total amount of tobacco sold. There has been a consistent raise annually in the amount of domestic tobacco used, in the total quantity.

By Mr. Senn:

Q. Can you tell us offhand what the total surplus on hand would be?—A. The lowest estimate of the total crop of last year was 23,000,000 pounds, the highest 25,000,000 pounds; I suppose the truth is somewhere in between the two. That would seem to indicate about 11,000,000 pounds at least—maybe a little above, maybe a little below—green weight in the field over and above the usage for last year of Canadian manufacturers. Now, that may be checked with reasonable accuracy against the quantity of dried weight tobacco now to be sold.

By Mr. Sommerville:

Q. Yes?—A. In the hands of the new organization that hold the bulk of the present supply of pipe tobacco, still owned by farmers—that is, not definitely sold—is almost exactly 7,000,000 pounds, almost equally divided between the two co-operative associations on the one hand and the Canadian Leaf Tobacco Company on the other.

Q. Strongly held?—A. Strongly held. In addition to that and also strongly held are 610,000 pounds, owned and controlled by Mr. Scythes, mostly his own production; 288,000 pounds, my two companies; and below 200,000 pounds with Mr. Freeman—that is also strongly held; there is from 85,000 to 100,000 pounds in addition to that, held more or less strongly, making a total of 8,156,000 pounds.

Q. Strongly held?—A. Yes; and in addition to that the Canadian Leaf owns at least 1,500,000 pounds not yet sold, but they own it, and it is also strongly held.

Q. Yes?—A. Now, that part of the surplus is not entirely alarming, because it is well known from general sources, and known also from purchases that have been made, interest that has been shown in this tobacco by Canadian manufacturers who quite obviously have not purchased yet their supplies out of the 1933 crop.

Q. Yes, I think we had a statement from Mr. Stewart that the quantity on hand for his company was comparatively small?—A. Using all the pessimism that I have—and being a Scotchman, that is a good deal,—I would say that there is a prospect of selling—I won't put it that way. If Canadian manufacturers who have not yet bought their full supply buy in proportion to their normal usage out of the 1933 crop, I would say that there is a market for about 2,000,000 pounds still in Canada.

Q. A market for 2,000,000 pounds still in Canada?—A. The biggest market, of course,—since it has been disclosed here—being the Macdonald Company. There is certainly a million and a half pounds indicated there in that one source alone. That does not necessarily mean they are going to buy it, because it is not of as good a grade as we usually produce, and there may be reasons why they should not; but to get their stock up to the usual capacity, it would indicate that nearly 2,000,000 pounds or 2,500,000 pounds that would have to be used. That would leave somewhere around 7,000,000 pounds presumably for export, or to be carried over for sale another year.

Q. It is in hogsheads, is it?—A. It is in hogsheads.

Q. Well matured?—A. It will improve.

Q. Strongly held?—A. Strongly held.

Q. It does not waste?—A. No.

Q. And is a good commodity?—A. A good commodity, it improves normally with age. A poor crop like 1933 will not improve as much as a good one, but it improves nevertheless.

Q. Then, with reference to the export market, what are your observations as to usage in Great Britain in the early months of 1934. I understand the figures are given monthly as to withdrawals and usage of the various kinds of leaf and you are able to tell how much has been used there?—A. Yes, not the various kinds of leaf, but the total amount of leaf used from the various producing countries. Unfortunately we have not been able to get from governmental sources in England a breakdown of the types of leaf used from any one producing country. We know that in England there is still used a reasonably uniform quantity, around, 2,000,000 pounds dry weight—fairly consistent, slightly declining, but around 2,000,000 pounds. There is still being used some little old stock of dark fired tobacco, and each year a very small quantity of the new crop of dark fired is going over, but it is becoming an almost negligible business.

By Mr. Senn:

Q. Is that from all sources?—A. No, Canadian. From 1931, including 1931, 1932 and 1933, the consumption of Canadian tobacco in the United Kingdom increased from 4,850,000 pounds in the Calendar year 1931 to 8,974,000 pounds in 1933.

Q. Almost a 100 per cent increase?—A. Actually 85 per cent increase, or an increase at the rate of 4,117,000 pounds a month. Now, we know there was a small quantity of Canadian flue-cured tobacco, 857,000 pounds of 1931—it could not have been over much more than 400,000 pounds, because there was not enough went out of the country in previous years to produce any more than that. Since the usage of Burley and Dark Fired has been declining through each of these years, necessarily all of this increase is flue-cured tobacco. A little more than the actual increase is shown by these figures is flue-cured tobacco. Now, during exactly the same time the consumption of Rhodesian tobacco in England, which is largely flue-cured, rose from 7,051,000 pounds to 8,600,000 pounds; or an increase of only 22 per cent as against an 85 per cent increase in Canadian flue-cured in England. In other words, in the same three years the use of Canadian flue-cured increased at least 4,200,000 pounds as against 1,550,000 pounds for Rhodesian; and it is noted that there was a consistent premium of from 1 to 4 pence per pound during all that time in favor of Canadian.

Q. That is a premium?—A. That the manufacturers paid, anywhere from 1 to 4 pence per pound.

Q. That is from 2 cents to 8 cents a pound more for Canadian flue-cured than for Rhodesian?—A. Than for Rhodesian.

Q. And notwithstanding this increased price which they paid, you have had this increasing volume of Canadian flue-cured being used?—A. Yes, and that can be justified only on the superiority of the Canadian over the Rhodesian for certain purposes for which it was bought. There could be no other reason for it.

By Mr. Senn:

Q. Do you consider the Canadian tobacco, if it is going to be used more freely in the British Isles, will displace Empire tobacco rather than Virginia Leaf?—A. No, I think, it will displace non-Empire tobacco largely of American origin.

Q. The reason I ask that is your present figures are comparing Rhodesian tobacco with Canadian?—A. I just interjected the Rhodesian to show the progress we had made in comparison with the Rhodesian which was on the market

six years before we were with commercial quantities. You have Canadian displacing Virginia Leaf from the United States; yes, that is what it is actually doing.

By Mr. Ilsley:

Q. The years you took were 1930 to 1933?—A. 1931 to 1933 inclusive, three years.

Q. The difference is two years then, that is the increase in 2 years?—A. Two years, yes; there were 3 years covered but it is really an increase in 2 years.

Q. I understood from reading your evidence before, I was not here, that there was some incidental or very temporary circumstance that affects the use of Canadian tobacco; that is, certain firms were pressing it by the use of premiums, or something of that sort, and that has stopped. For that reason it has fallen off. When did that falling off take place?—A. From around December, 1933.

Q. It is not reflected in the 1933 figures?—A. Except in the last month.

Q. Would not the increase you have given us for the 2 years give an unfair picture of it?—A. I was coming to that.

By Mr. Sommerville:

Q. He was going to deal with that very situation?—A. From 1931 to 1933, which would be from the crop years 1930 to 1932 the imports of Canadian flue tobacco raised at rather a higher rate than the consumption in England. For the year 1931, which would be largely out of the 1932 crop, the imports by the United Kingdom of Canadian tobacco, of all tobacco, rose from 6,300,000 pounds to 13,900,000 pounds. Flue-cured tobacco raised from $5\frac{1}{2}$ to just a little below $12\frac{1}{2}$ million. No matter which figure you use you see an increase of 7,700,000 pounds, or about 122 per cent.

Q. That would be imported for maturing purposes?—A. For maturing.

Q. And they would have to mature it, I think they said 18 months or two years, before using it?—A. Of course, that really suggests that they did not have enough tobacco to mature. But with a company like the Imperial of Great Britain, they acquired from the Imperial of Canada some aged stock.

By Mr. Ilsley:

Q. The figures you gave before were use?—A. Yes.

Q. The figures you are giving now are on importations?—A. Yes.

Q. Now, give us the use as against the importations for the year 1931?—A. In 1931 the use was 4,850,000 pounds; the importation 6,294,000 pounds.

Q. Yes?—A. For the year 1933 the use was 8,974,000 pounds—practically nine million; importations were 13,999,000 pounds. That is for all tobacco.

Q. That is for all tobaccos?—A. Yes. I can give you the same figures for import of flue-cured—5,550,000 pounds.

Q. Use?—A. No, imports—5,550,000 pounds for 1931; and a little below 12,000,000, I call it 12,000,000 pounds, for 1933.

By the Chairman:

Q. For 1933?—A. 1933.

By Mr. Ilsley:

Q. The first figures you gave us, something over 4,000,000 in 1931 was use; and 6,294,000 pounds of importations—are they flue-cured, or all tobacco?—A. That is all tobacco.

Q. Inasmuch as they are all tobaccos, the flue-cured might get it all mixed up?—A. I can start back from the beginning again. My difficulty is, of course, that I cannot give you—quoting actual government statistics—I cannot give you

the figure as to use exclusively. I can only estimate it from the knowledge I have received from various sources, I think reasonably accurately, for the consumption of Burley tobacco which has remained fairly steady, although it is declining a little lately—around 2,000,000 pounds a year.

Q. Yes, I feel disposed to accept your estimate. I would like to get the use for 1931, the use of flue-cured in Great Britain; and the importations of flue-cured from Canada to Great Britain?—A. I would say then about 2,800,000 pounds use in 1931.

Q. Yes?—A. And importations in 1931, out of the 1931 crop, about 5,550,000 pounds. Now, taking some 2,000,000 pounds of 8,900,000 pounds use in 1933, leaves us 6,974,000 pounds, and an importation of a little below 12,000,000 pounds.

By Mr. Sommerville:

Q. Yes, Mr. Leitch?—A. There is no question that for the particular use which has been largely disturbed in the last few months, for the particular use for which a large part of these purchases were made, that is, in the 10-for-4 cigarettes sold with premiums. On account of conditions that arose with this competition, the English manufacturers decided last October that as after the first day of January they would discontinue putting coupons in the cigarettes. The result was, from the English standpoint, a very great disturbance in the sales of that class of cigarettes.

Q. Yes?—A. Felt by all those who had been using Canadian as their raw material going into these ten-for-four cigarettes. But the damage was suffered unequally by the four principal manufacturers. They did not all feel the same results. From the manufacturers standpoint the serious part of it was that of the two that suffered worst one was the Imperial of Great Britain, who are the largest users. But two of the pioneer users of this type of tobacco for this purpose did not suffer as much because, frankly, their cigarette was a better quality product and they did not have such generous premiums, and the real pioneer users that is Gallagher's—suffered practically nothing. He had suffered nothing up to the end of a month ago, but the Imperial Tobacco Company did suffer, and they were the largest purchasers. No doubt a large part of their purchases during the years 1932 and 1933 were made for use in this particular cigarette. But we have now some idea as to how it is going to hit us, because we have available now figures up to the last of February—for January and February.

Q. Your January and February figures are available, after the coupons were taken out of the cigarettes, and they have come down to a basis of usage? —A. Usage, yes.

Q. What was the usages for January and February; how did they compare with the similar months of the previous year when the cards were in the cigarette package?—A. They are almost exactly the same, a slight increase for the two months. But we must remember that a large part of this increase during the year 1933 began in April. In other words, put it this way: for the months of January and February the usage of Canadian was about 550,000 pounds a month, or a rate of 6,600,000 pounds.

By Mr. Factor:

Q. For what years?—A. This year. This is this year, 6,600,000 pounds a month.

By Mr. Sommerville:

Q. A year?—A. At the rate of 6,600,000 pounds a year. In the whole year of 1933 the average was 8,974,000 pounds, so there is a deep line—there has been something happening.

Q. That is to say, if there is no increase in the summer months as there was last year, there will be a decline?—A. There will certainly be a decline.

Q. But as for January and February of this year, compared with January and February of last year, there has been a slight increase?—A. Yes.

Q. Indicating that there is a continued and substantial usage of this same Canadian flue-cured leaf?—A. Yes.

Q. Among the British manufacturers?—A. Yes. Even at that it is a higher rate than 1932, and it shows that there has survived some quantity at least of the premium cigarette with Canadian in it, or/and that Canadian tobacco is finding other uses. I do not anticipate any miracle happening, as I said before, that will at once bring the total consumption of flue-cured in England, or the total of Canadian tobacco in England, up to that 9,000,000 pound level for the calendar year 1933.

Q. You are not anticipating the same amount of usage this year as before? —A. No.

Q. What do you say as to the usage of Canadian tobacco increasing in the British market?—A. That all depends on the extent to which it finds a use in the more stable and better brands of tobacco as an alternative for American; as, since and chiefly because there is more and better aged stock available of Canadian tobacco. These aged stocks are only beginning to accumulate within the last year.

Q. That is to say, up to within the last couple of years, there were few aged stocks available; and it is only within the last couple of years that you have had large quantities available for grading and ageing?—A. Yes.

Q. And as that aged stock develop do you think there will be a steady and increasing demand for the aged stock?—A. Decidedly. I am satisfied in my own mind that, given reasonable time, Canadian tobacco will have the same history in England, in usage in English brands of cigarettes, as it has had in Canada in supplanting American tobacco.

Q. There has been a very substantial and steady increase in Canada?—A. Yes.

Q. In the use of Canadian Leaf in supplanting American tobacco?—A. For a number of years.

Q. And that is steadily advancing?—A. Yes.

Q. And you fully expect the same history with respect to this tobacco on the English market?—A. Yes. And that makes our problem one of keeping our own rate of production on export tobacco for England at such a level as will permit of sale at reasonable and profitable prices, or somewhere near to what our domestic prices are.

Q. Then your stock on hand at the present time is in very much better shape for the English buyer than it has ever been in the history of the industry? —A. From the standpoint of the trade, for use, yes. But it just happens that at this present time we are meeting a check from two acute conditions: a poor crop to begin with, not a good export crop; and this drastic cutting off of one particular use.

Q. So that you have met that situation, and it is a situation that has combined in 1934— —A. In this year, 1934. If we had a quality of tobacco somewhere near—it is not even as good as 1932, but was like 1931—it was just a fair year; I would not worry one bit about that 7,000,000 pounds of tobacco.

By Mr. Young:

Q. Would you think, Mr. Leitch, that a market will be found in Great Britain, not only for the present surplus, but for the increasing production of flue-cured in Canada?—A. Decidedly. I can sell every pound I have to-day if I want to take a low enough price.

Q. Do you think the British buyer is going to pay you more than an average world price?—A. Yes. There is no such thing as a world price for tobacco.

Q. There must be some guiding principle that influences these buyers in buying tobacco?—A. Decidedly. Tobacco from each source coming out of the market has its reactions on the market.

Q. The price will be influenced by the price which the English market has to pay for Rhodesian, American, etc.?—A. By the general level of tobacco prices, decidedly.

Q. That is a world price, is the Englishman going to pay you more than the world price for your tobacco?—A. Yes, he is going to pay more than that for Empire tobacco.

Mr. SOMMERVILLE: Because of the preference of 40 cents a pound for all Empire tobacco over other tobaccos.

By Mr. Young:

Q. Canadian tobacco is not the only tobacco to get that preference?—A. Decidedly not. It has its own particular peculiarities, and it has its own level of prices. Then it has its general characteristics and peculiarities under which it must come in competition with other Empire tobacco. Its own peculiar peculiarities or characteristics are that is it more near in flavour particularly to the American Virginia leaf than the tobacco from any other Empire source.

By Mr. Sommerville:

Q. And the quantity of American Virginia leaf imported in Great Britain exceeds something like 175,000,000 pounds?—A. Around 125,000,000 pounds is more nearly correct.

Q. 125,000,000 pounds, is it?—A. Yes.

Q. I thought we had discussed that here?—A. I think you have a total American, of all kinds.

Q. I beg your pardon.

By Mr. Young:

Q. The general advantage which our tobacco has over all other tobaccos, and the special advantage which it has over American tobaccos; putting these two together, how much do you think they will amount to in cents per pound over the price that Britain is willing to pay for her tobaccos?—A. You can only speak from past experience, and I would not care to go into it. But we have consistently, ever since we started to ship flue-cured tobacco—even this year small sales have been made at a consistent premium—as I said before from one to four pence per pound.

Q. Yes, but didn't you tell us on a former occasion that the tobacco you exported this year and last year brought you less than the tobacco you sold here in Canada?—A. Yes, decidedly.

Q. But is it not a fact that if you get a higher price in Canada than you do in the Old Country, would not the effect be—?—A. All the Canadian flue-cured tobacco sold in Great Britain brought a lower price per pound on the average than all the Canadian tobacco sold in Canada.

Q. I see?—A. Some, on the other hand, got just as high a price in England as we could have obtained in Canada for a comparable tobacco, I am speaking of the whole volume.

Q. On the bulk of the crop the price in Canada was higher than the price in England for the same tobacco; but the price in England was higher than the price than other countries got?—A. Yes.

Q. So you were doubly blessed?—A. Yes, doubly blessed. I think we deserved it, our tobacco was worth it.

By Mr. Sommerville:

Q. Was there any other observation you wanted to make on that export situation, Mr. Leitch?—A. It might be to the interest of the Committee to get the significance of the amount of the Canadian flue-cured in stock in England. I have given you some idea as to the rate at which it is being used.

Q. Yes?—A. The first commercial quantity—this is not the first quantity—shipped over to Britain was out of the 1929 crop, 350,000 pounds. Out of the 1930 crop, 1,350,000 pounds; out of the 1931 crop, 5,500,000 pounds; out of the 1932 crop, 11,500,000 pounds; out of the 1933 crop—well now, the figures are not available, but I have every reason to believe that the Imperial of Great Britain must have received a large part of what they bought last fall by this time—around 1,250,000 pounds, and from private sources 450,000 pounds; and I believe since the shipment of this type of tobacco started to England in any commercial quantity, the total amount shipped to England would be around 20,120,000 pounds. From the best information available there would be used out of this to the end of 1933, 10,800,000 pounds.

Q. To the end of 1933?—A. Yes. 10,800,000 pounds. In the last three months there would be another million and a half gone, there was a reduction of 6,500,000 pounds a year.

Q. Yes?—A. That would be 12,200,000 pounds of that gone. There must be 8,000,000 pounds over there, not included there, on top of that. 8,600,000 pounds, and 1,500,000 pounds -approximately 2,000,000—all Canadian leaf. That leaves a total world stock, as far as we know—

Q. If 12,000,000 pounds have been used up to date in England out of a stock of 20,000,000 pounds, that leaves about 8,000,000 pounds?—A. In England, in the manufacturer's hands.

Q. In the manufacturer's hands?—A. Yes.

Q. That is the amount that is maturing?—A. Yes.

Q. And a considerable quantity of it is not yet ready for use; and that represents over a complete year's supply?—A. Yes, nearly two years' supply.

Q. And this 6,500,000 pounds?—A. Is the entire consumption of Canadian tobacco.

Q. That is on flue-cured?—A. On flue-cured, yes.

Q. Yes?—A. Probably 4,500,000 pounds.

Q. And that situation is one which, as you say, you can face without apparently difficulty?—A. I do not say that, it certainly gives me a considerable amount of concern, naturally.

Q. Yes?—A. Because of the poor quality largely, and because we are meeting this particular check of giving up these premiums just at this particular time. But it is not a situation to be unnecessarily alarmed at. The reason I say that is this: it happens that there is one grade of tobacco which is the largest grade that we have in the association pack—it makes up over 35 per cent in the case of one association, and about 19 per cent in the case of another—roughly about one-third of the Canadian pack. The price that we have received from our border brokers indicates that the lowest that particular grade could sell at is just exactly the price at which we are holding it. But our difficulty is this, out of the four grades there are some qualities considered good in England especially. Those are so low we are not yet ready to consider, or take the responsibility of making sacrifices on these low grades, of which we could sell a third of the crop for the price we are holding at, since this tobacco was only packed two months ago.

Q. It was only packed two months ago?—A. Finished packing just two months ago. The market has really just started, but the indications we have from very high class border brokers covering the whole trade—and we necessarily get indications as to what we might sell at, what business might be done

at—demonstrate to me that we could if we wished, sacrifice at this moment, and sell that tobacco in England in the course of the next few months at a price that would yield the Canadian grower—I am assuming we can sell it on these indications at about 3 cents a pound less than what is the desirable price we try to get for it, which is what the crop was worth on the basis of a 24 cent top last year. But we are not yet in a situation where we have to sacrifice the farmers' interests, and there is not sufficient pressure for funds yet on the farmers to give us the necessary courage to sacrifice that three cents.

Q. So you are holding, and it is being held in strong hands?—A. Yes.

Q. You have had assistance in the matter of financing from the Ontario government?—A. Yes, and the Canadian Leaf. They are well financed. Their financing is available to the farmers.

Q. Thank you for that. Now, you were asked to consider certain definite samples of yields and returns on crops that were set out in the brief filed by the Imperial Tobacco Company, and you have handed to me certain statements as to the return, and your observations upon those. On page 48 of the Imperial Tobacco Company's brief there are set out a certain number of cases, and the first case is one of a farmer producing tobacco on 35 acres, with a capital investment of $16,000, producing 40,902 pounds or 1,168 pounds per acre, with a gross return of $8,589.42, on which the Imperial figures indicate that the total cost was $2,050, leaving a return of $5,670. Perhaps you will just let us have the benefit of your criticism of this statement. By the way, you have considered this with your associated growers, and with the government, as to the necessary cost in the various branches, have you?—A. Yes, with the officers of the tobacco division of the Central Experimental Farm of the government.

Q. Please let us have your observations upon this case that is set up as a specimen case?—A. If I understand this—it is quite a while since I have read it—

Q. Let me read the case as set out in the brief. At page 48 there is this statement:—

> We have in our possession certain statements indicating the cost of production on various farms, the first of which, while not disclosing the total number of acres included in the farm, nevertheless indicates that an investment in land, dwelling, buildings, kilns, machinery, greenhouse and other equipment amounted to $16,000. On this particular farm 35 acres of land were cultivated to flue-cured tobacco in the season of 1933. The cost of operation, which included interest at the rate of 5 per cent on investment in land, buildings, kilns, machinery and all other capital expenditures, taxes on property, depreciation on buildings, machinery, etc., horses, feed, fertilizer, fuel, seed, insecticides, twine and paper, oil and lubricants, repairs, hail insurance, building insurance, crop insurance, labour $2,050, cost of boarding labourer and curer's wages, etc., amounted to a total of $5,670 which is equivalent to a cost of $161.97 per acre or 13·86 cents per pound.
>
> After providing for all the aforementioned expenses and 5 per cent interest on capital investment, there remained a further profit or return of $2,900 which means that the total net return on the invested capital of $16,000 is some 23 per cent, and before providing interest on invested capital the net profit is 43 per cent of the gross sales value.

Dealing with that particular case, what do you say?—A. Those expenses totalled by the Imperial Tobacco Company, the Imperial Tobacco Company's figures, —of which only one was itemized—that is labour appearing at $2,050—amounting all told to $5,670 were broken down into the individual items mentioned in that list, and in about the same order in which they appear.

By Mr. Ilsley:

Q. Do you know the farm?—A. No, I don't know it.

Q. You are just criticizing what you see here?—A. Yes. Except this, it specifically says 35 acres of tobacco. A lot of the costs of 35 acres of tobacco are the same, no matter who grows it. However, starting in the same order in which the Imperial's brief indicates them, interest on investment at 5 per cent—that was $16,000—is $800. Taxes on property, $160. That would be a rough average, assuming the average 100 acre farm with 35 acres of tobacco—$160 a year. Depreciation on buildings, machinery, etc., $835. We know pretty well the equipment needed to grow 35 acres of tobacco from those who have farms, and it would be about that figure. Feed for one team of horses, $250. Here is a place where there may be quite a discrepancy. If that farm follows the usual practice and the feed for the horses is purchased, it would be about $250 for last year; that is approximately the cost of buying feed for a team of horses. If that feed was grown on that farm—that is if there was other farming besides tobacco—there might not be in the Imperial's items any similar amount. That is not disclosed. Fertilizer, $560. No matter who bought fertilizer, that is about what it would cost. That is common usage. Fuel for curing, $216. Here is another item that the Imperial's list of figures does not disclose where the fuel came from. If it was cut off the farm, which is done in many cases, there might not be any cost for fuel, except what might be reflected in labour. But if the fuel, as is customarily done in most farms, was purchased, it would be $216. Seed, $3. Insecticides, $88.50; that is all kinds of insecticides, poisoned bait for cut-worms and arsenate of lead for hornworms. That can't vary much on each farm per acre. Twine and paper; that depends almost entirely on the size of the yield of the crop. Repairs of all kinds, buildings and machinery—our own experience on a large number of farms, and Mr. Freeman's was that that runs all the way from $125 to $175 a year. Hail insurance is a fixed amount of $110.25 for that acreage. Building insurance, including the class of buildings that must be used to house that tobacco, and provide a living place for the operator, would be about $148.75 a year. Crop insurance for a year; that depends on the yield, and the size and value of the crop. There can't be much error in that at $199.50. Labour, including board, we put in at $2,200. We only departed from the Imperial's figure of $2,025.

Q. You add $150?—A. Yes. There was a reason for that. That was done out of our knowledge of what we pay on our farms, what our own growers pay on their farms for the labour in growing 35 acres of tobacco on a big yield like that. It may be possible that in the Imperial's figures that the man referred to, the grower or cultivator as they call him, may have had members of his own family doing certain work and not paid any regular wages; that might account for the little difference of $150 a farm between the two. Curer's wages and transportation—I don't know whether there is any reference made to that.

Q. There is none?—A. That will cost, on a farm of that size, to cure a crop of that size, about $275.

Q. You bring in a curer who does the curing?—A. Yes. The total of these figures, estimated from our wide knowledge of what all these things cost, and our wide experience, was $6,052.50 as against $5,670, as put in by the Imperial, although the difference of $275 would appear to be the curer's wages. That may or may not be included in this labour included here. We don't know. It is quite possible it may not be the reason. This may be a very economic director of labour, and he might easily have got his crop harvested for that, but $2,200 is very low. The balance of the difference, which is only $380 is a difference that could easily be accounted for by these departures from the usual practice that I mentioned in connection wth feed and fuel.

Q. Feed and fuel?—A. Yes. There would appear to be no estimate or no return in the brief—

Q. In the case filed?—A. —for any wages for the cultivator himself and his overseeing, any labour for himself. We just consider he is not any better than any ordinary hired man and put in for his labour $600 a year. We adopted that figure in spite of the fact that in case No. 2 or case No. 3—

Q. Case No. 2?—A. Case No. 2, is it—the compiler of these figures for the Imperial Tobacco Company admitted that a reasonable figure for the cost of the operator's living and keeping his family was $1,150; but when we allowed him $600 for his labour for a year, we don't think we were over-paying them.

By Mr. Young:

Q. You say $600 for his labour?—A. Yes.

Q. Is his board included in that item?—A. No.

Q. He has got to pay his own board out of the $600?—A. I would say so, and keep his family. This is a moderate figure.

By Mr. Sommerville:

Q. This is a very moderate basis that you are figuring on?—A. Yes.

Q. What is next?—A. We had another very important item of cost in a crop, being hazardous and speculative as it is, and that is crop hazard. There are three very important sources. Great damage results in a crop like this, a specialty, from hail, frost and wind.

By Mr. Young:

Q. Have you not already provided for insurance?—A. For hail. And all the hail insurance you can get is not going to recoup you for your loss of your crop. It is just going to give you your out of pocket expenses.

By Mr. Sommerville:

Q. You don't get the value of your crop?—A. No. For frost you have no protection, and even in the five years I have been in business here, we have had large losses from frost. We are trying to grow a sub-tropical plant in a northern climate and we have that inevitable danger from frost; although in the last three years since we started priming, that hazard has been minimized considerably.

Q. Yes, we have had evidence here by Mr. Kingston that in one year he left $120,000 worth of tobacco in the field?—A. Yes.

Q. I think we quoted Mr. Buell's letter of September 28, 1932, to Mr. L.H. Reed, that he had made a careful survey of the 1932 crop in Norfolk county last week with Mr. T. L. Lea and our local buyers, and he goes on to say that there was a killing frost on the night of the 18th instant which destroyed about 15,000 pounds, but this improved the situation from the buying standpoint, as most of this tobacco would have been coarse and rough?—A. Yes.

Q. There was a substantial loss from frost that year?—A. Yes, that particular year.

Q. And the percentage that you have arrived at as a basis of your crop hazard allowance is 15 per cent, I observe?—A. Yes.

Q. Is that a reasonable amount?—A. 15 per cent of the gross return in any one year. That is $1,375.

Q. Have you had occasion to discuss this average with those who are in the habit of buying crops?—A. Oh, yes, all these hazards are discussed.

Q. Is this a reasonable and proper allowance?—A. Well, the reason we adopted 15 per cent was that Mr. Lane agreed with me one evening in discussing this thing, that it looked reasonable, 15 per cent.

Mr. Lane: I question that.

The Witness: Maybe you are right.

Mr. LANE: I suggested to you that provision for loss for hazard would be arrived at in taking the average yield of the crop over a period of years, instead of taking a flat, fixed average, if there is depreciation in any one crop year. Quite frankly, while you may be quite correct in stating that you mentioned 15 per cent, I have no recollection of it.

The WITNESS: Our discussion about the method of calculation took place in this manner, general agreement—

The CHAIRMAN: Anyway, Mr. Lane says he does not agree with you. We will take it at that.

The WITNESS: All right, leaving it at that—but to be fair to Mr. Lane, we were ourselves making some arbitrary calculations on this one night in his room, and we put in 15 per cent. Mr. Lane says, "All right, that will do for this purpose.

By Mr. Sommerville:

Q. At any rate, is 15 per cent, one crop in seven, a reasonable proportion or a reasonable reserve for hazards—A. Yes. I think in my own experience with the 64 farms we operate, we have 9 farms a year, over five years, on the average, which have suffered from these very things.

By Mr. Young:

Q. Suffered to the extent of 100 per cent of the crop—A. Practically 100 per cent of the crop. That is what it would come to, the damage. In other words, put it the other way, the damage resulting from these things practically wiped out—although it is spread over more than 9 farms, it practically wiped out or reduced the return on 9 of these 64 farms to nil. In my judgment, 15 per cent is reasonable. It is a very speculative and hazardous crop. In this particular crop that ran to the substantial sum of $1,375, leaving a total cost of $8,027.50. Those things must be considered. The return you are going to get over the course of years is absolutely important.

By Mr. Sommerville:

Q. Your growers are entitled to set up a reserve as well as some manufacturers, I suppose?—A. The revenue from this farm, according to the figures of the Imperial, who evidently bought it, was $8,589.42, and on this basis of calculation of ours, it left a profit above this 5 per cent on the investment, of $472.50. In other words, it is another 2·95 per cent.

Q. On the investment of $16,000?—A. Yes.

Q. I observe there is 5 per cent interest allowed on the investment. Can anybody borrow money up your way on farms?—A. No—oh, well, on mortgage, yes.

By Mr. Young:

Q. Can you tell me any other kind of farm that pays as much as this, 5 per cent interest on the investment?—A. Yes, but it is only one farm. It is only one farm in a thousand.

Q. I don't mean only tobacco farms. I mean cattle farms, wheat farms, dairy farms or any other kind. Can you tell me any other that pays 5 per cent and 2:9 per cent?—A. Yes, I would say that even in the present circumstances—

Mr. KENNEDY (*Winnipeg*): The witness is not speaking of it paying 5 per cent. It is a charge, what the money costs.

The WITNESS: Yes.

Mr. SOMMERVILLE: Interest.

The WITNESS: Mr. Young is right. This farm actually did return, even on our figuring, it returned 5 per cent.

By Mr. Young:

Q. I want to know another kind of farm in Canada, other than a tobacco farm, that will pay even one per cent?—A. The situation is this way: No matter how bad conditions are or how low prices are, there is always some farmer who can make money, the most efficient one, because he is efficient. That is what this man was.

Q. You say this is the gentleman?—A. It is the man who is efficient.

By Mr. Sommerville:

Q. Complete your story then, will you?—A. This man has a yield of 1,168 pounds to the acre.

By Mr. Factor:

Q. What is the average yield?—A. The average for the whole year last year—it is a little hard to determine.

Mr. SOMMERVILLE: You have it on the next page.

The CHAIRMAN: 842.

Mr. SOMMERVILLE: Item No. 8.

The WITNESS: 748 for 1933. This was 1933.

By Mr. Sommerville:

Q. That is the average yield given by the Dominion Bureau of Statistics and Department of Agriculture for 1933, 748 pounds to the acre?—A. Yes.

Q. In this particular case there was a yield of 1,168 pounds to the acre?—A. Yes.

Q. And according to the estimates of the Imperial Tobacco Company, the average yield per acre was 842 pounds, as set out on page 19 of their brief. On the basis of the official estimate, the particular grower under consideration produced a yield of 56 per cent above the average, and on the Imperial estimate, 38·7 per cent above the average?—A. Yes.

Q. Is that the fact?—A. That is the fact.

Q. You go on to say: "It is of further interest to know that the average yields during the past six years as given by the Dominion Bureau of Statistics are as follows: 1928, 800 pounds; 1929, 696 pounds; 1930, 720 pounds; 1931, 896 pounds; 1932, 995 pounds, and 1933, 748 pounds"?—A. Yes.

Q. That is correct, is it?—A. Yes. In addition, this man got 21 cents for his tobacco, as against something less than 20.

Q. 19·3 was the average?—A. 19·3 paid by the Imperial Tobacco Company for its purchases for only part of the crop, and the best part of it.

Q. 19·8, I am informed it was?—A. Yes. This man had a yield of 33 or 34 per cent above the Imperial's own estimate of the yield per acre last year, which was higher than the government's estimate. I don't think either one was right. I think it was somewhere in between the two, as a matter of fact. Anyway, taking the highest estimate, that is the Imperial's, I think it is about 36 per cent higher in yield, and 2 cents a pound—no, 1½ cents a pound more. By that combination of circumstances he got himself $8,589.

Q. That is not an average case?—A. Decidedly not.

Q. It looks like an abnormal case?—A. That would be one in the whole 1,000 farms that stands out. He may have got rain that nobody else got. I had a couple of farms that turned out as well as that, right up in the north corner of my own property. They got rain that nobody else got, and they turned out good.

By Mr. Factor:

Q. With regard to this paper with all those figures that you have put in under the different items, are the expenses correct?—A. Yes, those are correct. I know they are substantially correct. They can't vary very much.

By Mr. Ilsley:

Q. This is not an average case at all?—A. Not at all. It is an absolutely outstanding case.

Q. Would it be about the best possible case that could be found in the province?—A. Absolutely. I did'nt know of a single farm, till I saw this example, with an average of 1,168 pounds a year.

Q. Is it represented to be an average case?—A. I don't think so.

Mr. SOMMERVILLE: It just says, "We have in our possession—"

The WITNESS: I don't think they claim it is an average case.

By Mr. Sommerville:

Q. In paragraph 10, you say, "One is forced to the conclusion that in order to attain the results shown above it was necessary to grow a crop at least 38·7 per cent above the average in yield and to receive a price at least 50 per cent above the average. For the purposes of comparison, the results of producing an average crop and receiving an average price, using the Imperial's figures in both cases are given below." Then you examine that same acreage at the average yield of the Imperial's figures?—A. Yes.

Q. And I see with a production of 35 acres, with an average of 842 pounds, it made 29,470 pounds; gross return at 19·8, the average price, at $5,835; and the cost of production, $8,027.50 less $800 or $7,227.50, or a net loss of $1,392.50 on that farm, if it were an average farm?—A. No, if the same farm had had just an average yield.

Q. If that same farm had had just an average yield?—A. Yes. And the reason for the $800 was taken off for the outside expenses was because with an average yield below this, certain expenses would come down in proportion to the yield—labour particularly; twine and wrapping material and quite a number of items are reduced.

Q. Take the second case which is mentioned on page 49, which deals with that of a proprietor of 33 acres cultivated by a tenant producing 34,400 pounds of tobacco, which was sold to Imperial Tobacco Company at 19⅓ cents per pound, yielding $6,650 or $201 per acre. What have you to say with respect to the examination of that case?—A. Well, this was a farm in which the price received was just slightly below the Imperial's figures, slightly below the Imperial's average—19½ against 19·8. The yield was above the average. It was 1,042 pounds to the acre. It brought in $6,650. Now, according to their statement, the out of pocket expenses indicated but without provisions for the following: Interest, depreciation, repairs, building insurance, hail insurance, labour, $1,600—taking that statement.

Q. Taking their $1,600?—A. This is the aggregate amount.

Q. But they do not provide for the items you have mentioned?—A. With provision for the above mentioned items on the same basis as in table No. 1, pro rata, for reduced acreage, 33 against 35, and a little smaller yield, those items amount to $3,946, which includes, of course, interest at 5 per cent. Then, provision for the operator's labour was also omitted, $600. Provision for crop hazard, $990 was also omitted, which gives a total cost of production of $7,136. The crop return was $6,650. In other words, there was a net loss of $486, which means that fell within $486 of paying 5 per cent interest.

Q. I observe you said: "It should again be noted that the yield per acre is high, being 22·4 above the Imperial's average of 842 pounds and 39·1 per cent above the official average of 748 pounds"?—A. Yes.

Mr. SOMMERVILLE: I just asked you to prepare this statement. We will file this statement of the examination of these two cases indicated.

(Statement filed, and marked Exhibit No. 167.)

By Mr. Ilsley:

Q. You gave what you thought was the cost of production per pound?—A. No. I always answer that question by saying there is not any such thing in farming.

Mr. FACTOR: There was some gentleman here who gave that.

Mr. YOUNG: Mr. Freeman said 20 cents a pound was the cost of production.

The WITNESS: I think Mr. Freeman said under last year's conditions—if I recall it correctly—if the grower got above the average yield and above the average price, he could make a little money.

By Mr. Young:

Q. At 20 cents?—A. Yes.

By Mr. Sommerville:

Q. That was without allowance for depreciation and crop hazard?—A. Yes.

Mr. YOUNG: He didn't say without anything.

The WITNESS: I think he must have included depreciation. Mr. Freeman would.

Mr. SOMMERVILLE: Well, thank you, Mr. Leitch.

The CHAIRMAN: We have no one else to call to-day.

Mr. SPAFFORD: Mr. Chairman, may I make a statement in reply?

The CHAIRMAN: Yes.

EARL SPAFFORD, recalled.

By the Chairman:

Q. What is the statement in connection with, Mr. Spafford?—A. In connection with what I might term rather wild statements made yesterday by some of our competitors.

Q. Well, Mr. Spafford, whether they were wild or not, you are quite at liberty to make a statement, but I think it would be just as well not to say they are wild; because I suppose if one calls another's statement wild, the other will call his statement extravagant, so we will get nowhere with it. Their statements were made on their own responsibility, and the committee will judge whether they were wild or otherwise?—A. Yes, sir. I merely said, "In my opinion," sir.

Q. Well, all right, go ahead, Mr. Spafford?—A. I wish to refer to the signed statement with regard to our advertising policy as presented by me when this committee convened yesterday morning. It is a true statement of the facts, and I resent the insinuation made by several of our competitors who testified here yesterday that the executive officers of the Imperial Tobacco Company have knowledge or had knowledge and gave their consent to the alleged methods of our men. So far as I am aware evidence covering only a comparatively few cases were submitted, and with the exception of those which were sworn statements, I question the veracity of the dealers who made the others. In other words, the statements made yesterday were, in my opinion, wild, exaggerated and without foundation.

The CHAIRMAN: Might I interrupt you. I question from your own standpoint the wisdom of merely making a statement concerning another man's statement as being wild, inaccurate and so forth. They made certain statements. The committee will judge from their estimate of the gentleman who made those statements as to the weight of them. If you have anything specific to state, to refute those statements we are pleased to give you an opportunity of doing so, but I would suggest that you refrain from characterizing other people's statements as wild. Give us your facts. There were some very definite statements made yesterday about practices, and certainly the committee would be very glad to hear an explanation, or if you wish to refute the statements with any facts, proceed to do so, but we must ask you to refrain from characterizing the statements of reputable gentlemen as wild.

Mr. ILSLEY: Mr. Chairman, I do not know whether the point is worth arguing or not, but this point was pretty well talked about yesterday.

The CHAIRMAN: The practices were, and I am quite willing to hear any statement refuting the allegations and the charges, if you like, made against the company; but I merely state that I do not think it is an effective answer to say simply that they were wild.

The WITNESS: Pardon me, sir. If my memory serves me right—I have not seen the official record of the evidence—but all the witnesses intimated that statements I have made were not correct. I resent that. My statements were made under oath.

The CHAIRMAN: So were their's.

Mr. FACTOR: Resenting a statement is not disproving it. Let us have some facts and figures disproving some of the statements.

Mr. ILSLEY: Mr. Spafford, there is only one thing I would like to ask. What would be the motive of these retail merchants in making the statements?

The WITNESS: Well, I think as one of the witnesses said yesterday, sir, some of them were disappointed perhaps, because we did not put them on what you know as our preferred list. Others had possibly been price cutters whom we had, perhaps, taken off our list.

By Mr. Sommerville:

Q. No. These were all cases of men who were on your list either direct or indirect?—A. I do not know that, sir; they could not be on our list indirect.

Q. They were on your list direct, or they were buying indirectly from the jobber?—A. I say that, sir; that some of them may have been on our list and cutting prices, and we had cut them off which forced them to buy from the jobbers.

The CHAIRMAN: Proceed.

Mr. FACTOR: That has not been the complaint.

The WITNESS: I wish to read a letter, sir, written by Mr. Tingle, director of our company, written August 19, 1933, to our Ottawa office. It reads:

> GENTLEMEN: We have recently had drawn to our attention two cases in different parts of the country where our employees placed signs over those of other advertisers.
>
> This is very much against our wishes and instructions, and there is absolutely no excuse whatsoever for this. We felt that all our men were familiar with our instructions, evidently they are not or they are disobeying same.
>
> If we have any further cases brought to our attention, we will be compelled to take strong disciplinary measures.

By Mr. Ilsley:

Q. Have any disciplinary measures been taken?—A. Yes, sir—no, I could not say they have. I could not cite a case.

Q. It seems to me that there is a pretty strong feeling against you. That evidence yesterday made it appear that the practices are pretty general all over the country. I cannot imagine a conspiracy of slander as far reaching as that unless there is some basis in fact, and if you say you have not fired any of your men it looks as if you did not disapprove of it?—A. I cannot recall, sir, where any case has been definitely proved of our men doing these things that they have been accused of. Now, as I said yesterday, my experience with the Imperial Tobacco Company only dates three years—that is within their organization. I have been 15 years in the tobacco business in Canada.

The CHAIRMAN: Just before you proceed to that. I do not want to seem narrow in my interpretation, but yesterday the statements were made by, I must say, reputable business men in the country that certain practices prevailed. I think the committee had the impression that they prevailed rather generally. Now, you offer in contradiction to that this letter from Mr. Tingle. It is addressed to the advertising department of the Imperial Tobacco company at Ottawa and it says this: "We have recently had drawn to our attention two cases in different parts of the country where our employees placed signs over those of other advertisers." Then the letter goes on to say that this is against the wishes and this letter then says that you were cognizant of the practice. That is the point I am making. So that the statements made yesterday, even if they were exaggerated, were not entirely wide of the mark.

The WITNESS: We knew of them having been reported, sir.

The CHAIRMAN: So that the answer you give is simply an admission that you knew that was going on to a degree. You deny, of course, the generality of it.

The WITNESS: May I read this letter which presents the other side of it, sir. This is from our Edmonton manager and he writes to our Calgary manager dated March 17, 1930:

> At the new Edmonton Grocery, 97th street on March 13th, I saw a window bill advertising Spud cigarettes tacked on to our Old Chum calendar. It was placed squarely across the printing above the date pad, the top edge of the bill just about touching the package of Old Chum shown in the picture.
>
> I asked the clerk in the store at the time whether he had seen the window bill placed, and he said that he had seen the Rock City salesman put it up a few days previously. He removed it while I was in the store.

The CHAIRMAN: I hope you condemn that.

The WITNESS: Yes, I do.

By Mr. Factor:

Q. Well, Mr. Picard admitted himself that they had to resort as a matter of defence to methods like that, and they ceased. They could not get along?—A. Mr. Factor, I want to say this: competition between manufacturers is very keen; competition between salesmen and advertising men is very keen, and you cannot overlook the human element. Anyone who has a fighting organization, they will go out to get what they can, and we will expect them to do it.

Q. I quite appreciate that. I am not so sure if the other men were in your shoes they would not have done it the same way?—A. I admit we have reports both ways, for and against.

The CHAIRMAN: All right, Mr. Spafford.

The WITNESS: I would like to read a letter which indicates our willingness to co-operate with other manufacturers in trying to overcome the evil that we know does exist to a certain extent where competition is really keen. This is a letter, addressed by my assistant Mr. Wadd in Montreal to Mr. J. Hughes, secretary-treasurer, Messrs. L. O. Grothe, Limited.

Mr. SENN: Of what date?

The WITNESS: February 17, 1933:—

> At the meeting held in Montreal on August 5th last—

That would be in 1932.

> —of representatives of certain manufacturers it was understood that the subscriber would arrange to call a meeting of these representatives early this year.
>
> It is understood that several of the manufacturers' representatives would like to hold this meeting as soon as possible and it is, therefore, suggested that the meeting be held at 3 o'clock on the afternoon of February 23rd at the Mount Stephen Club on Drummond street.
>
> In so that all problems that the manufacturers wish presented at this meeting may be properly discussed a representative from each of the manufacturers is urged to be present.
>
> Please signify your intention to attend by notifying the subscriber not later than Monday the 20th.

This was also sent to Mr. Arthur Simon of the Simon Cigars, A. G. Munich, of Benson Hedges, Mr. D. Granda of the Granda Cigar Company, T. H. McGuire, of the Tuckett Tobacco Company and Mr. J. M. O'Brien of our company. I might say we did not send one to Mr. Stewart or Mr. Fortier because they have a tradition that they have to live up to which does not permit them to associate with other manufacturers.

Mr. SENN: May I ask you what response you received?

The WITNESS: Yes, sir. Mr. Hughes was present, Mr. Munich, Mr. Arthur Simon, Mr. McGuire and Mr. O'Brien. The meeting was held on March 8th.

The CHAIRMAN: 1933?

The WITNESS: Yes, sir. And this is what was agreed upon:—

> That it will be the policy of each manufacturer to respect the others' advertising material.
>
> That windows dressed by one manufacturer will not be defaced with an opposition window bill or other advertising material but for the following exception—

This is a technical thing. I do not know whether I should read it or not.

Mr. SOMMERVILLE: You can state the general result.

The WITNESS:

> That a window dressed by a manufacturer will not be taken out by another manufacturer until the period for which it was dressed has expired. If there is any doubt as to the expiration date the manufacturer who has received permission to dress the window upon the expiration of the present window will telephone the manufacturer whose window is at present on display obtaining the date his window is supposed to come out.
>
> That window dressers of all manufacturers will respect the window dressing material of the others and in the event the material is not being properly cared for by the dealer such window dressers will advise their companies who in turn will telephone the manufacturer suggesting that he pick up the material on hand.

This line-up was for a period of 30 days. It worked out satisfactorily and so far as I know it is still working. I telephoned our Montreal office this morning and they corrobated that.

By Mr. Sommerville:

Q. That is in Montreal?—A. Yes.

Q. Did you not hear the evidence yesterday of Mr. Hughes that in the city of Montreal he had had a complaint from your firm that one window had been taken out of Grothe and that he made enquiries and the person in charge said; yes, that window had been taken out, but the Imperial had taken out two of Grothe's windows that very week; and that when your firm were apprised of it your firm replied, "Oh, that is a different matter." You heard the statement? —A. I heard the statement, yes, sir; but as the particulars were not given it was impossible for me to check it up.

Mr. FACTOR: The very fact that you entered into an agreement corroborates the evidence that there was that problem?

The WITNESS: I have never disputed that, sir.

By Mr. Sommerville:

Q. I suppose the Imperial have 70 or 80 per cent of the window displays? I desire to get the total in proportion to the volume that you sell, and you endeavour to get 70 or 80 per cent of the total?—A. It all depends upon organization. If the other organizations have not got the men they cannot get the windows.

Q. No. It would mean that seven out of eight of the windows would be Imperial windows that would be affected by any such arrangement?—A. Seven out of ten.

Q. Seven out of ten, all right; but among all the other manufacturers there would be the other three?—A. Yes, sir. If they could get them.

Q. If they could get them?—A. Yes, sir.

Q. Apparently they have their troubles in getting them?—A. Well, sir, that is a matter of organization.

By Mr. Senn:

Q. Did you say that that proportion exists to-day?—A. No, sir, I did not, but I say we have the biggest window dressing organization in Canada to-day.

Q. And your proportion of display, not only window but in other ways, is larger than your proportion of sales?—A. I would not say that, sir. We try, as I say, for 70 per cent.

Q. You have no figures on that?—A. It would be anybody's guess.

Q. You would not like to hazard an opinion?—A. According to Mr. Young who walked down Bank street yesterday morning it was about fifty-fifty.

Mr. YOUNG: No, you had more window display than the others.

The WITNESS: Did we have 70 per cent?

Mr. YOUNG: Yes.

The WITNESS: That is fine. I will congratulate our representatives.

Mr. YOUNG: You might have had more than that.

Mr. FACTOR: I cannot see the joke myself.

The WITNESS: Well, you were kind enough to smile.

Mr. FACTOR: Well, I am smiling at your arrogance.

The WITNESS: Arrogance?

Mr. FACTOR: Yes.

The WITNESS: That is very complimentary.

The CHAIRMAN: What else, Mr. Spafford?

The WITNESS: I should like to deal with the general statement by Mr. Hughes if I might. To do this I am afraid I will have to refer to certain general merchandising principles that I personally believe in and my company believes in them and at all times to the best of our ability carry them out. Now, to effect distribution of a brand a manufacturer must depend on his own sales organization. Experience has shown that the average jobber will put very little effort behind any one manufacturer's goods. He sells what his customers ask for which, of course, means what the public demands. The maintenance of distribution is accomplished by the manufacturer's sales and advertising efforts plus consumer demand. With our sales organization of 127 men calling on 57,000 retailers throughout Canada once in approximately every five weeks we are enabled to maintain distribution, and I say that this is the primary reason for our success, plus our advertising efforts. This success cannot be attributed, as stated by witnesses, to our supposedly strong arm methods, and I should like to point out that not 25 per cent or, say, 14,000 of the 57,000 retailers in Canada have window, counter or other advertising space suitable for the proper display of cigarettes, cigars or tobaccos. Now, here is something I believe has quite a bearing on this whole subject that we are being, I believe, censured for. It will be interesting, and, in my opinion, the information is most important, to know the number of advertising men employed and the amount of money spent annually on advertising by our competitors. I do not hesitate to tell you that during the three years of my connection with the Imperial Tobacco company we have spent approximately three and one-half million dollars in salesmen's salaries and expenses and nine and a half million dollars in advertising our brands. Great stress has been laid on this privilege of buying direct, and the hold that we are supposed to have over these dealers; but I would like to point out that less than 10 per cent of the total number of retailers in Canada buy directly from us. In other words, of the 57,000 retailers we sell approximately 5,000 direct, so that this terrible influence that we are supposed to exercise could only be applied to relatively few dealers to the detriment of other manufacturers.

Q. The question of cigar merchandising: Mr. Hughes and Mr. Munich have made the statement that we insist upon our customers including a certain quantity of cigars with each order for cigarettes and tobacco, otherwise we will not sell them our goods. That is not our policy.

Q. Not your policy, but is it your practice?—A. May I continue, sir.

Q. Yes, I just asked you the question?—A. That will come in the rest of my brief here.

By Mr. Senn:

Q. Might I ask you a question, Mr. Spafford?—A. You said 10 per cent of the retailers, only 10 per cent?—A. Less than 10 per cent.

Q. Who have this preference privilege?—A. That is right, sir.

Q. Would they be the larger retailers, naturally?—A. Naturally, yes.

Q. You could not say what proportion of the business was transacted by these people?—A. No, I could not.

By the Chairman:

Q. You probably could give us that, Mr. Spafford; surely you can give us what you sell direct, as against what you sell indirect?—A. I could easily make up a statement.

Q. Would you mind getting that for Mr. Senn?—A. No.

Q. Because all the indirect includes these little stands, restaurants, and so on, where they sell other goods; refreshment stalls?—A. That is right. Furthermore, in the province of Ontario, from roughly Oshawa, West and North to the boundary of Manitoba, where 53 per cent of our total cigar sales are

made, we operate a separate and distinct cigar sales organization under a sales manager who has nothing whatsoever to do with the cigarette and tobacco end of our business. In other territories where our sales organization handles the full line of our products, as I said before, it is not our policy to insist upon a certain quantity of cigars or other merchandise.

By Mr. Edwards:

Q. Would you be wrong, supposing you did insist; what is wrong with the principle?—A. Personally, I cannot see that there is anything wrong with it; but I rather got the impression from the committee that we were doing something we should not, it seems that everything we do is wrong; and I am trying to explain why we do it. The minimum shipping quantity of cigars we will ship prepaid is approximately 500, and any dealer may buy this quantity regardless of whether he orders cigarettes and tobacco.

By the Chairman:

Q. Oh, but wait; is not that just the reverse of the allegation, although I am not objecting much myself to it. You say he can buy cigars, irrespective of whether he buys cigarettes?—A. That is right, sir.

Q. But the suggestion is that when you are selling cigarettes, your men say, well now, you must buy cigars. I am not saying it is wrong. I am passing no judgment on it whatever. It was an allegation made?—A. No, sir. I am making a point that 53 per cent of the cigar business is handled by salesmen who do not handle cigarettes.

Q. That is a good answer?

By Mr. Sommerville:

Q. But do you say that it is not true that you require men who are buying cigarettes to also buy cigars?—A. No. We do not insist upon it. We try to get the business, but it is not a condition of sale, if that is what you mean.

Q. And it has not been done at any time in the last two years?—A. Not to my knowledge, sir. Percentage of displays: Mr. Hughes made the statement that one of our men in Winnipeg told "a" dealer—not giving the name—that if he was going to enjoy the privilege of buying direct, he must give us 80 per cent of his display space. Now, remembering that I made the statement that we expect dealers to give us co-operation in proportion to our percentage of the total business, which we say is about 70 per cent, was it unreasonable for our representative to start trading at 80 per cent, knowing that he would be satisfied with 70 per cent.

By the Chairman:

Q. In other words, guilty. Let it go at that. I am not saying it is wrong.—A. I do not think that he got 80 per cent, sir; I think he should have started at 100.

Mr. Sommerville: He should have tried for 100 per cent.

By Mr. Ilsley:

Q. I do not know, you demanded the whole thing if you say he should have done that?—A. I do not agree with that, sir. When a salesman goes out to sell, he goes out to try and sell as much as he can. If you can sell a man $10,000 worth, you are not going to be satisfied with $5,000.

Mr. Edwards: That is good sales practice, isn't it?

By Mr. Ilsley:

Q. Just what you say, isn't it; that it was quite all right for him to say, now if you want to stay on the direct list and buy direct, you have got to give us 100 per cent display?—A. I do not say that he should have stuck to that point, no sir; he should have been satisfied with 70 per cent.

Q. Should he have started at that; does not that appeal to you as being a little bit wrong toward your competitor, to tell him that he has got to sweep other lines off his counter if he is going to stay on your direct list? That is what you are being accused of, and that is about the worst you are being accused of. Whether or not it is wrong, I do not know; it seems a little bit wrong to me, I must say—and not a little bit either?—A. A statement was made about the fear dealers have about the Imperial Tobacco Company. I would just like to say a few words about that. Witness testified that dealers were afraid to give concessions to other manufacturers because their living depended on the sale of Imperial brand. This is true to the extent of 70 per cent, but what is most important in my opinion is this—that if we did not exercise the reasonable control we do over retailers, whether they are direct buyers or buy from the jobber, retail prices would break in 24 hours.

By Mr. Sommerville:

Q. Price control is one thing, but shop control is an entirely different thing, isn't it?—A. My contention is, sir, that each has a bearing on the other.

Q. But it is not one and the same thing?—A. If we could not control the dealers, we could not control their action on prices.

By the Chairman:

Q. There is a big difference there, Mr. Spafford?—A. Yes, sir.

Q. Mark you, let me point out to you, I think every one of your competitors endorse the principle of price control?—A. That is true, sir.

Q. Let us just drop that from our picture as far as any dispute is concerned, I think they are all agreed on that. That is a question for the committee to determine later on, whether they agree with that suggestion. But there is a vast difference between exercising price control, price maintenance, and what you describe as controlling the retailer. Why should you exercise control over any retailer except your own organization?—A. Well, sir, we do it so that price control may be maintained.

Q. Surely this is a free country, and a man selling tobacco, or candies, or other products is at liberty to conduct his own affairs as he likes. Surely he is entitled to that?—A. Well, sir, possibly the word "control" is not the right word to use. But I say this, that if we do not exercise our influence with the dealers to maintain prices, the efforts of other manufacturers, no matter how much they are in favour of price control, would be of very little value.

Q. Oh, but wait: there is an altogether different thing. Your price maintenance is controlled through your jointly refusing to sell a man your stock through your jobber. You have an agreement, cited in evidence yesterday; a contract between yourself and the jobber, and I am not for a moment calling that into question. That is another matter. But I question the exercising of arbitrary control over what the retailers should do in the operations of his business. That is a different matter, and that is what is complained of. If you will just stick to that and leave this price maintenance, for a moment—I doubt whether we are in agreement on it, but the committee will discuss it on its merits. That is another problem, but when it comes to your exercising arbitrary control, or taking a dictatorial position—I use these terms because they are implied—over the retailers; that I think is something that you ought to explain,

certainly in a manner different than what you are doing now?—A. I thought I had explained that, that it is the jobber selling arrangement. It does not cover the indirect retailer, it only covers the activities of the jobber.

Q. Yes, but it was stated in evidence, if not by yourself, by one of the other witnesses, that the manufacturer was used by the jobber in order to control any recalcitrant person cutting prices?—A. Amongst the jobbers.

Q. Quite so. But between yourselves and the jobbers refusal to sell was a disciplinary measure that was used. However, what I want to get away from is that I do not want to draw the committee into a consideration of price maintenance when you are dealing with an entirely different matter; namely, interference with the privilege and liberty of a retailer in the conduct of his business in any way?—A. May I make this point, that these indirect dealers that buy from the jobbers do not come within the scope of any price maintenance agreement.

By Mr. Factor:

Q. You are missing the whole point?—A. No I am not, in my opinion; it is up to us to keep order amongst these indirect buyers, because nobody has contact with it.

By Mr. Sommerville:

Q. You are the policeman of the retail trade?—A. Yes, sir, and if we withdraw that supervision as I said before, I am confident that prices will be cut.

By the Chairman:

Q. When you say " supervision," just explain what you mean by that?—A. I mean that if the dealer is cutting prices we do our best to persuade him to go back to standard prices; if he is an indirect man we cannot say he must go back.

Q. None of your competitors brings any action of that kind into question.

By Mr. Ilsley:

Q. We are not talking about that, Mr. Spafford at all; that price maintenance may be all right with the chairman, I don't know about that. But what we were dealing with was all this evidence about your disciplinary methods for another purpose, that was to prevent your competitor's goods from being displayed and advertised. Now, let me ask you this; if you did not take any disciplinary methods at all, would you not get your share?—A. Which point are you speaking about, display?

Q. Display advertising. If you did not take any disciplinary measures against retailers, would you not get just as large a share—apparently you approve of that, say that they should stop it all?—A. I do not approve of it.

Q. If you did not use disciplinary measures, or make threats to that end at all, would you not get your share of advertising display?—A. I have said before, sir, that the condition of sale is not that you must give us 100 per cent, or that you must give us 70 per cent; we try to get 70 per cent, and we are satisfied with 70 per cent.

Q. You may not have meant it in your evidence but you certainly said a few minutes ago that you would have approved if your salesmen had started out by saying, give us 100 per cent of this thing, intimating that you would not put him on the direct list if he did not do it?—A. He was not being forced.

Q. You hoped he would get it?—A. I say that it is not even absolute, that the dealer must give us 70 per cent.

Q. Let me ask you this question? If your people did not make these threats, and exercise this discipline that you direct towards price maintenance at all, and directed towards a larger share of display advertising, would you not get your share?—A. I do not say they make these threats. I would not admit that they make these threats. I assume they try to get advertising space, but I say it is not considered a condition of sale.

By the Chairman:

Q. You yourself read a letter from Mr. Tingle admitting a case?—A. Which had been reported, but not proved.

Q. What is the object of reading the letter? I think you should frankly admit that this practice is indulged in by your officers. You may say that they do it without your instructions, or something of that kind. I must say it is pretty hard for me, I do not know what the other members think, but it is pretty hard to ask me to think that all these men who have come before us, reputable business men of this country, are drawing on their imaginations for these statements.

By Mr. Ilsley:

Q. Will you tell me if in your opinion you think trade practices of this kind are necessary for the maintenance of your fair share of the advertising business?—A. I do not admit that they do exist; if they do exist I would say it is not necessary.

Q. It is bad trade practice?—A. I do admit that, freely.

By the Chairman:

Q. Then it is a question, if you are an official of the organization, of finding out whether it happens or not? You practically say, however, that you are not aware of it?—A. I ask you to believe, sir, that it does not go on with our countenance.

Q. There is just a nice little narrow point there, I would think you were perfectly idiotic if you gave instructions to do it?—A. We give instructions not to do it.

Q. Just wink with the other eye, something like that. You just always get away from it. Tell us frankly that you discountenance it, or rather discipline your staff if they do it, and tell us whether it has been done; and then the committee will be satisfied that you were very sincere in the matter?—A. Mr. Chairman, I made the statement before that no clear case has ever been proved; and if we may have the evidence, the sworn statements that were submitted yesterday by Mr. Hughes, I personally would like the privilege of investigating each one of these. And I can personally assure you that where something detrimental has been done it will be corrected and the principal concerned will be disciplined.

By Mr. Factor:

Q. But, Mr. Spafford, in all these complaints from coast to coast, and coming all over for two or three years; did you ever discipline a single man in your organization for any of these practices?

Mr. Edwards: Or reprimand him?

The Witness: Frankly, I can call no case to mind, because none have ever been proved.

By Mr. Factor:

Q. Is not that a reasonable assumption, your not having done so as an executive in charge of these men, having been aware of these things, have countenanced them?—A. That is not true, I have never countenanced them, and do not know of them apart from reports that have not been proved. If I have an opportunity of going through our records, I might be able to place as many complaints—I could give you a lot of complaints that we have had about other manufacturers using the same tactics.

By Mr. Sommerville:

Q. I should think that they would encourage similar tactics by others?—A. It is a question of who started them first.

Q. No, I think it is rather a question of who does it most?

By the Chairman:

Q. But you will admit that it is reprehensible in any case, whoever does it?—A. I do, sincerely.

By Mr. Factor:

Q. Is there any way by which you and the other manufacturers could get together and eliminate this, shall I say this matter of high pressure salesmanship and high pressure advertising?—A. The letter that I had describing a meeting in Montreal is an indication of what we would like to do, and we would do that from coast to coast if there were any way of getting the representatives together.

By Mr. Young:

Q. Might I ask you this question: you are accused of doing certain things, and of expecting things from the dealers; and you are accused of using certain disciplinary measures to force them to comply with your rules and regulations; the discipline you apply is that if they do not do as you say, or as you wish, they will be cut off the list and find it difficult to get their supplies?—A. Only if they cut prices.

Q. Quite apart from that, in the matter of display or any of these so-called mal-practices of which you are accused; supposing this committee were to find some way of opening to these men who are disciplined a new source of supply, would not that be the most effective check of those practices whether you or anybody else is carrying them on?—A. The men whom we discipline are price-cutters. If they got their supplies from some other source, they would still cut the price.

Q. We have had evidence to the effect that men have been disciplined for failing to give you sufficient window display—you are accused of it— assuming that it is so I ask you this: would not the most effective way of checking it be to open some new source of supply to these men so that if they should be cut off, they could still get a supply.

Mr. SOMMERVILLE: How would they get supplies from the Imperial?

Mr. YOUNG: I think we could still find a way of getting the supply. You leave that to me and I will show you where the supply is coming from.

By Mr. Young:

Q. Is not that a natural correction?—A. It sounds that way, but I have never considered it so I would not like to give a hasty reply. It is an entirely new angle to me.

By Mr. Kennedy (Winnipeg):

Q. You don't know where these other supplies of the Imperial came from?—A. No. There are a lot of jobbers to-day getting our goods, and I wish I knew where they are getting them.

By Mr. Sommerville:

Q. What would you do?—A. We would try and stop their source of supply.

Q. That is what I thought?—A. For we must follow out our plan.

Q. Under your price maintenance plan, that is what you would have to do?—A. Yes.

By Mr. Factor:

Q. May I ask this question rather bluntly? You say these practices do not exist. You have heard the sworn testimony of Mr. Hughes, Mr. Fortier, Mr. Picard, and Mr. Munich. Are those men not telling the truth?—A. Mr. Factor, I say that we do not countenance them, and so far as I know there has never been a proven case submitted to us.

Q. I know, but here are four men, reputable business men in Canada, sworn on oath, giving us concrete illustrations. Mr. Hughes has left with the committee twenty-five examples.

Mr. Sommerville: And here is another batch from Mr. Munich.

Mr. Factor: Yes, and I have in my own file dozens that I have not had a chance to submit to the counsel.

By Mr. Factor:

Q. Now, Mr. Spafford, these men come in and swear that these practices do exist. Will you tell me that these men are not telling the truth?—A. I tell you this, that they are making these statements in good faith; I will give them credit for that. I would not make any other insinuation. But I say this, that apart from the sworn statements—I believe they presented some—I question very much the other statements which have been handed to them by their salesmen or by dealers.

By the Chairman:

Q. What about that case from Toronto yesterday where certain streamers were put up to introduce a new cigarette?—A. I have that right here.

Q. You can't question the fact that the streamers were torn down or destroyed?—A. No; but might I give my impression of the situation?

Q. Yes, give us whatever you can.

By Mr. Senn:

Q. Before you deal with that, may I ask one question. You heard the evidence of these four gentlemen yesterday. Presumably they are heads of their organizations. Have they ever indicated to you, as head of your sales organization, that these practices were being carried out?—A. Oh, yes. That is why they got together in Montreal, for example, and tried to straighten them out.

Q. Did they give you concrete examples of it?—A. I didn't attend the meeting.

Q. And you are head of the sales organization?—A. Well, sorry to say, at the present time mine is an inside job—I don't mean in the ordinary sense of the word. But Mr. O'Brien is our sales manager, and in charge of all our outside activities, and he talks with all the representatives of the other manufacturers.

Q. I was wondering, if these things are so prevalent as suggested by the witnesses yesterday, why they didn't submit concrete examples to the organization?—A. Well, I may say this, that if the representatives of the different manufacturers, including our own, the local ones, would get together and discuss their troubles, it would go a long way towards overcoming this trouble that does exist.

Q. And you are willing to meet them?—A. Absolutely.

By Mr. Sommerville:

Q. Suppose a merchant did go so far as to allow his name to be used, to bring a complaint to you that your salesman had come in and removed all the goods of Grothe and Benson & Hedges off the counter, and those two men had come to you with that complaint, what would have happened to that merchant from the Imperial?—A. Why, he would have been thanked very sincerely.

Q. Then you would be writing letters of gratitude, if I gave you all the names, for a long time to come. May I give you one illustration just of the situation now. Here is a man about which it is said:—

> About September, 1933, the Imperial Tobacco Company threatened to cut this customer off the list if he did not remove our goods—

That is Benson & Hedges.

> —as well as L. O. Grothe's, from his counter.
>
> This customer was given five days in which to do this. He did not want to remove our Admiration or Londres cigars, since they were enjoying such a good sale, but at the same time he did not wish to lose his account with the Imperial Tobacco Company, since it meant so much to him.
>
> When this case was brought to the attention of the writer by this gentleman the matter was immediately taken up with our office. The writer was advised to see the customer, to ascertain if he would verify this statement before an investigation, but fearing pressure from the Imperial Tobacco Company should we, for any reason, lose our case, this customer hesitated to have his name used, stating that Imperial would cut him off completely.
>
> After the five days were up, all opposition cigars were removed from the counter and this gentleman was once again in good standing with the Imperial Tobacco Company, having complied with all their demands.

Do you say that is a thing that is just produced out of the imagination of a creature?—A. No, I don't at all.

Q. Is not that the exact condition that these merchants are under, having 70 per cent of their supplies coming from you, that they dare not come forward and make their complaints? I have a whole grist of these, and I think that if they were handed to you, there would be some talking to some of these men, if there was not anything more. Let me give you an illustration of a dealer. Here is a dealer who has a whole district, on April 27—just last month?—A. What do you mean by a whole district?

Q. He is a jobber covering a whole district. He is not a retailer in a single section. He is a jobber in a district?—A. With other jobbers.

Q. Yes, with other jobbers. He says:

> On April 27 I was demonstrating a certain brand of Benson & Hedge's cigars and trying to persuade—Mr. Smith, we will call him—to buy in larger quantities so he would benefit by the extra 5 per cent discount, which is a considerable item.
>
> He brought to my attention the fact that the Imperial Tobacco salesman spends considerable time in this district, and brings in a large amount of detail orders, giving them splendid co-operation.
>
> He claims he could very easily place a box of our cigars with most of his customers, but he stressed the point that when the Imperial man would call on these customers he would immediately inquire who was responsible for having these cigars placed on the counter among his goods, and they would of course state that they were sold by—Mr. Smith, as we are calling him—and that was something he could not afford to let the Imperial Tobacco salesman know.

—A. That is that man's impression. It is not a fact.

Q. That is such a general impression among jobbers that it must arise from somewhere, not simply out of the air?—A. Mr. Sommerville, you say "amongst jobbers." Among these telegrams which you kindly allowed me to present yesterday, there were many telegrams not referring exclusively to price maintenance. They referred to the general policy, sales policy, of the Imperial Tobacco Company. Those telegrams were from reputable men from coast to coast.

By Mr. Factor:

Q. They referred to the system of distribution of jobbers and retailers only. They didn't approve of these tactics going on?—A. You contradict my statement? Have you read them?

Q. Listen, be reasonable. I say that these telegrams approved of the system of distribution between jobber and retailer?—A. Not exclusively, no.

Q. Do you mean to say that they approved of these tactics that were used?—A. They don't admit they exist. They admit they approve of our general policy.

Q. Of distribution?—A. No, no, our treatment of the trade. They were from retailers as well as wholesalers.

By Mr. Ilsley:

Q. I thought they had reference to price maintenance?—A. Not exclusively.

The CHAIRMAN: No, not exclusively, but largely. There is not any doubt of this. They were never asked whether they approved of strong-arm methods of control in the trade. That question was never submitted to them. They didn't refer to that at all.

By Mr. Senn:

Q. Mr. Spafford, if those tactics are resorted to, and the retailer refuses to comply with the demands of your travelling salesmen or your jobbers' association, who in your organization has authority to refuse your goods to them?—A. Well, sir, I have made the statement before that that is not a condition of sale.

By Mr. Sommerville:

Q. Who has authority, though? Is it the local man?—A. If it was a question—

By Mr. Senn:

Q. Can the travelling salesman, for instance, refuse your goods?—A. No, our district sales manager, of which we have eleven throughout the country.

Q. Do you know whether these cases are referred to your district managers or not?—A. I don't admit that there are any such cases.

By Mr. Sommerville:

Q. Is Mr. Cohen a district manager of yours in Montreal?—A. Cohen? Oh, yes, he is a supervisor.

Q. He is a supervisor. Then let me give you this case of April 30, 1934. This is a letter received:

> In the presence of an Imperial Tobacco Company window dresser, a booking was taken by me for an Oxford cigarette window—Benson & Hedges—to be made on April 30, 1934.

That was in the presence of a salesman.

> It was agreed by both the owner of the store and the Imperial window dresser that the necessary arrangements would be made for Benson & Hedges. It is stated by the owner of the store that on April 29th—

The day before the window was going in.

> —Mr. Cohen and two other representatives of the Imperial Tobacco Company told the owner of the store that Benson & Hedges could not dress his window and suggested something in the form of a threat.

And the window was not dressed. Now, is that the kind of thing that a supervisor is supposed to do for you?—A. No, it is not.

Q. There it is, right on the 30th of April?—A. Well, I have asked so many times if I might be supplied with names and full details of these cases. There are so many general statements that have been made, that I think in fairness to our company I should have that information.

By Mr. Factor:

Q. Don't you see the difficulty, Mr. Spafford? I think you are quite fair in your request, if the committee was assured that in the subsequent negotiations similar tactics would not be adopted in threatening them. Let me give you an illustration. I, personally, tried to get two dealers from Toronto, two retailers, to come and give evidence to this committee, and they refused because of the fear of being cut off in their supplies. I speak here personally, and of my own knowledge?—A. Well, I think that fear is exaggerated.

Q. Well, it seems to prevail to a great extent?—A. It is not from any desire of mine.

Mr. SOMMERVILLE: I can tell you of a dozen that have some fear, who would like to give evidence before this committee of the practices, but who are afraid of what would happen to them and their livelihood.

Mr. YOUNG: It seems to me that it puts this company in a very awkward position. They are accused of certain things, and their accusers refuse to face them.

Mr. ILSLEY: That is so.

The CHAIRMAN: We had before us five, I think it was, of the leading competitors of the Imperial Tobacco Company, everyone an outstanding leader in his line of business and head of his firm. On oath they made statements that certain practices are prevalent through the country, and they point out to us that they do not wish to disclose the names of the individuals, because from their knowledge of the way the practice is carried on, those individuals would undoubtedly suffer. We could—I have been giving this matter a lot of thought—summons these people before us and make them tell us. Take the two men that Mr. Factor mentioned. Mr. Factor mentioned that matter to me. We could summons them and force them to tell us, but I hesitate to take the responsibility myself to do so. What we are trying to do with Mr. Spafford to-day, or at least at his request, is give him an opportunity to answer.

By the Chairman:

Q. Now, Mr. Spafford, is it quite an answer simply to say that unless you have full details you cannot deal with the matter? Because you have yourself admitted in two or three instances that the practice is indulged in. You don't say it is prevalent, but you say it is indulged in?—A. Which practice?

Q. The practice of bludgeoning people, because your own letters admits two cases, frankly?—A. It does not. I am sorry to contradict you but I don't think the letter admits it. The letters says it has been reported.

The CHAIRMAN: Oh, well, I know, but it goes on to say that these practices—I have forgotten just the wording, and the letter has gone out—but I think anybody would take it that it was admitted by Mr. Tingle and says it must stop, or something to that effect.

Mr. YOUNG: Now, Mr. Chairman, if the company says in their letter that this thing should be stopped, and then we go and bring them before us and say, "Now, you are accused of doing that in a dozen different cases," then the natural thing for them to say would be, "Tell us the cases and we will see it is stopped," and we refuse to tell the cases.

The CHAIRMAN: I admit it is a very difficult thing. However, I will tell you what we will do. The committee will take into consideration whether or

not we shall bring the individual witnesses here to back up these statements which were given. It is a serious responsibility for the committee, and I was hoping that Mr. Spafford, when he asked to make a statement to-day, would offer us some real explanation of the matter, but I confess that you have not given us much yet.

The WITNESS: Mr. Chairman, I have made the statement that if a dealer came to me and laid his complaint, and I found it was justified, I would not censure him. I would censure the salesman. If you will give me the information of every one of those complaints, I tell you in all sincerity the same condition will prevail, and in the future—that goes for the future too.

Mr. ILSLEY: I think they had better be communicated with, in view of that statement he has just made; and if they agree that their letters may be produced, they certainly should be produced, so that he will not be confronted with hearsay rather than fact.

The CHAIRMAN: We will do that.

Mr. KENNEDY (*Winnipeg*): Just before we get into this last phase, you asked the witness regarding the pulling down of streamers.

By the Chairman:

Q. Can you make that plain?—A. The episode referred to by Mr. Hughes, which occurred recently in Toronto—I have not had time to see or communicate with our Toronto man yet, but I believe the explanation is this: According to Mr. Hughes' statement, the representative of his company put the window bills on windows containing our window dressing material.

Q. He didn't say that.—A. Well, I say, sir, that is my impression, that they were put on windows trimmed by us.

Q. He didn't say that.—A. Well, then, I have no defence, if it occurred.

Q. However, go ahead and make your explanation on that assumption?—A. Well, I say it is, if I am not mistaken, the statement made by Mr. Hughes. This was in our opinion, and is sort of a gentleman's agreement amongst the manufacturers, that they will not put window bills on windows trimmed by each other. It would be the same thing as putting a sign across another sign that is tacked up on the wall. It spoils the effect of the window. If it did occur, I would say it is contrary—if they were taken down by our men whether they were on windows trimmed by us or not, it was contrary to instructions from head office.

By Mr. Kennedy (Winnipeg):

Q. Frankly, Mr. Spafford, this is not of much value. You start out by saying, "If it did occur," that you have not communicated with them, and this is your impression of the explanation?—A. Yes.

Q. I suggest that as evidence it is of little, if any value. You might better investigate the facts, and let us have that.

By Mr. Sommerville:

Q. Might I suggest to you that while you are in Ottawa, you investigate to-morrow, how many of your signs in the last two weeks have been put over the windows or on the windows dressed by Benson & Hedges, Rock City or Grothe in the city of Ottawa?—A. Well, may I make another statement? You referred to Hull.

Q. I just ask you to make that examination right here in Ottawa?—A. But in connection with the episode which occurred in Hull, I want to explain that by saying that I must admit there is what might be termed a local feud between

the Imperial and Grothe, the local advertising representative? We have not been able to get them together. I believe those practices prevail on both sides, but it is my intention before I go back to try and straighten them out.

The CHAIRMAN: Now, it is six o'clock; is there anything else?

Mr. ILSLEY: Is Mr. Spafford going on? You want to say some more about this?

The WITNESS: I would like to finish this, or I would like to file it with you.

By Mr. Senn:

Q. Will you be here to-morrow?—A. I had hoped to go home to-morrow.

Mr. ILSLEY: I think Mr. Spafford ought to have a full opportunity of replying to the very serious charges that were made yesterday.

The CHAIRMAN: Yes, I think so.

Mr. ILSLEY: And take whichever course he thinks fit. Perhaps it can't be done now.

The WITNESS: Another matter is the painting of jobbers' wagons.

Mr. YOUNG: How long will it take?

Mr. SOMMERVILLE: He has four or five pages yet.

By Mr. Ilsley:

Q. Would you rather file it, or come back?—A. I would rather not come back. I would like to go home to-morrow, and do a little work, and see how everything is going; but it is whatever you instruct me to do, sir.

The CHAIRMAN: I don't want to handicap you or curtail you in any shape or form. I would like, myself, to make a little more progress, though.

The WITNESS: Well, may I file this with you?

The CHAIRMAN: If you wish.

The WITNESS: That would save you gentlemen time.

Mr. FACTOR: Yes, we can read that into the record, and your representatives will be there.

Mr. SOMMERVILLE: You have covered up to a certain point. Just indicate that.

Mr. HUGHES: If we are going to remain until to-morrow, I would like to have permission to reply to some of this cover-up explanation.

Mr. SOMMERVILLE: Mr. Munich is making the same request.

Mr. SENN: I am afraid if this goes on, we will be here indefinitely.

The CHAIRMAN: I will tell you what we will do. We will meet to-morrow morning at 10 o'clock and give these gladiators another chance.

The balance of Mr. Spafford's statement, referred to above, is as follows:

Painting of Jobbers' Wagons: This matter as referred to I know nothing about excepting that circumstances as described are contrary to our instructions. If I may have the particulars of each case I will personally investigate it. If any injustice has been done it will be corrected. I say again, we will not tolerate any such action of an employee of ours. Nor will we tolerate an action described by Mr. Hughes wherein a representative of ours is supposed to have obtained from a jobber in Montreal figures showing purchases of competing lines under the threat that if the information was not supplied the account would be closed. He went on to say that the figures were not forthcoming

at first and that as a result an order placed with us was held up. If all of this is true it was done without my knowledge or approval or the knowledge of any one of our executive officers. The matter will be investigated at once and if guilty the employee concerned will be dismissed. It will be necessary, of course, for me to have full particulars which I assume Mr. Hughes will supply.

Mr. Hughes, and I believe one or more of the other witnesses, made the statement that an affair such as this went on with the knowledge of "Head Office." Someone in Head Office, perhaps an order clerk if an order was held up, might know, but certainly not an executive of the company. That is definite.

Evidence submitted by the Macdonald representative: Mr. Fortier made the same general statement as Mr. Hughes, but, in addition, stated that we closed a retailer's account because he distributed free tobacco to the unemployed. If Mr. Fortier refers to the closing of the New-Way Tobacco Store account he is labouring under an illusion. We closed this account because the arrangements under which it was opened were not lived up to. This account, if my memory serves me right, also operated deals which are equivalent to price-cutting.

Benson Hedges' representative: Mr. Munich referred to a dealer in the north end of Montreal with whom we entered into a five year contract for two or three windows. I should like to have full particulars of this case as when I telephoned our Montreal office this morning for a report on this matter no record of any such case could be found. As a matter of fact I want to state that with the exception of two cases, and this is not one of them, we do not have contracts with any dealer covering window display space.

Rock City Tobacco Company: I am particularly anxious to go into Mr. Picard's statement to the effect that we deliberately demoralized prices in Quebec city because we were disappointed that the Jobbers' Association did not get properly organized there. Mr. Picard is correct in one contention. We were sorry after devoting a lot of time to assist the jobbers, to have their efforts fail.

The price proposition to canteens is another matter and goes back several years, possibly five, when the W. C. Macdonald Company quoted a special price of $8 per thousand cigarettes and 90 cents per pound of tobacco (regular price to the trade $9.75 for cigarettes and $1.17 for tobacco) to the Department of National Defence so that their cigarettes and tobaccos could be sold at cut prices in military canteens. The cigarettes were retailed at 20 for 23 cents the tobacco, I believe, at from 60 cents to 70 cents per half-pound tin. We found that these special prices were seriously affecting our business. Not only in the canteens but with civilians who, through knowing people who enjoyed the privilege of buying from canteens, obtained their supplies from this source. We endeavoured to have the special prices discontinued but were not successful with the result that in order to protect our own interests, we offered similar prices to the Department of National Defence in September, 1932. In May, 1933, the W. C. Macdonald Company reduced the price of cigarettes to $6 per thousand. We followed. Cigarettes then sold on a basis of 20 for 18 cents. On May 1st this year, which is just over two weeks ago and not three weeks ago as stated by me yesterday, we raised our prices on cigarettes and tobaccos to our regular list prices with the exception of canteens operated for the benefit of the unemployed where we continued the special price of 80 cents per pound for tobacco. I believe all this is what Mr. Picard refers to and has nothing whatsoever to do with general conditions in Quebec or the failure of the jobbers there to form an association. As a matter of fact I might mention here that, outside of the city of Toronto, Quebec city is the worst cut-price territory in Canada.

I do not understand Mr. Picard's reference to a club or an individual to whom consumers pay $1 membership fee and get cigarettes at cut prices. I know nothing about any such arangement, nor do I believe that we sell to any such club or individual. If Mr. Picard will supply me with full particulars I will give the matter my personal attention.

The Committee adjourned at 6.05 p.m. to meet Thursday, May 17, at 10 a.m.

House of Commons, Room 368,

May 17, 1934.

The Special Select Committee on Price Spreads and Mass Buying met at 10 a.m., the Hon. H. H. Stevens presiding.

Mr. Norman Sommerville, K.C., of Toronto, and Mr. W. W. Parry, of Toronto, appeared as Counsel for the Committee.

The Chairman: The minutes of yesterday's meeting record the filing of a large number of exhibits set forth therein, certain witnesses called and heard, and also the fact that two of the Ministers of the Crown were heard in regard to a matter previously referred to. I declare the minutes approved.

Who is your first witness this morning, Mr. Sommerville?

Mr. Sommerville: I think Mr. Spafford filed the balance of his brief last night.

The Chairman: I am told it has been printed in the record.

Mr. Sommerville: Yes.

Mr. Spafford: You asked for certain information, which I have.

Earle Spafford, recalled.

Mr. Kennedy asked for particulars of the Toronto episode. First of all, Mr. Senn asked what our volume of business was direct with retail accounts. It is 28 per cent, sir.

The Chairman: Twenty-eight per cent of your business was direct?

The Witness: With the retail accounts.

Mr. Sommerville: In answer to Mr. Senn's inquiry as to the volume of your business with the direct retail accounts, you say that these direct accounts represent 28 per cent of your entire volume of sales.

The Witness: Correct.

Mr. Sommerville: Does that include sales to the United Cigar Stores?

The Witness: Yes. You asked me to have the Ottawa and Hull situation checked up last night, and there is the report sir.

Mr. Young: We would like to have that read.

Mr. Sommerville: Yes. Mr. Spafford says:—

> Thorough check-up last night revealed no opposition advertising on our windows. None of our advertising on opposition windows.

A perfect condition.

The Witness: Yes, 100 per cent.

Mr. Young: At present. What was it a week ago?

Mr. Sommerville: I was only referring to the check-up of the night before.

The Chairman: Mr. Spafford, you would call that snappy work, would you not?

The WITNESS: We have a very thorough organization. I have a telegram from our Toronto manager, which I would ask you to read, sir.

Mr. SOMMERVILLE: Yes. A telegram from Mr. A. R. McWhinie, Manager, Imperial Tobacco Company, Toronto:—

> Earle Spafford. Read in papers Grothe Biased—

What is that, " biased " or " based "?

The WITNESS: Both, I would say, sir.

Mr. SOMMERVILLE: That is efficiency.

The WITNESS: I think he means based.

Mr. SOMMERVILLE:

> —charges regards removing window bills in Toronto we should be the ones to complain of unfair tactics stop We respect all advertising whether by our competitors or other advertisers and while we have complaints we also have grievances which we mutually adjust stop Grothe put on a window bill campaign for Grad cigarettes and placed same on windows dressed by our window dressers in many cases obstructing our showing the work and material in these windows costing us approximately from five to eight dollars each stop In a number of these cases we did remove their window bills stop After doing so we phoned Grothe representative Smith registering our complaint Smith made an appointment for Tuesday morning coming to our office when this question was discussed he said that he had two novices putting up window bills and probably good judgment was not used he agreed with us that the practice was unethical and he would adjust further complaints on request and we would mutually respect one anothers advertising stop I was surprised to see that he wired his complaint to Grothe stop To-day we checked up a number of windows dressed by our window dressers and found four of our window displays with view of centre piece obstructed with Grad window bills making displays of no advertising value to us stop Five other windows which we dressed have had grad bills but high up so as not to obstruct these showing stop We checked five Grad window displays but no window bills of our brand shown we respected their windows but they have not respected ours we are the ones have a grievance stop Grothe remarks about us following their window bill campaign three weeks ago is absurd as we have carried on regular weekly bill display since last October stop Regarding Grand counter displays their statement is grossly exaggerated stop They are and have been showing since placed on the market in a great number of stores including retailers who buy our goods direct and we have made no comment to the retailer figuring they are just another brand stop Can give you names and addresses of stores where windows dressed and view obstructed stop We tried to get in touch with Smith to-day left word to phone us have not heard from him yet stop We do not remove other manufacturers outdoor signs even when requested to do so by the retailer and we receive and expect the same courtesy from other advertisers stop In Toronto we are the ones who should be complaining.

By Mr. Factor:

Q. I should like to ask one question in regard to this Toronto situation. I received a letter yesterday complaining that in connection with the Canadian National Exhibition in Toronto, the Imperial products are the only ones that are on display at the Canadian National Exhibition. Can you enlighten me on that?—A. Well, there are two features in connection with the Canadian National Exhibition. In the first place, they have what they call a process building display, where we run a manufacturers exhibit. That is, of course, exclusively ours.

By Mr. Young:

Q. You pay for that privilege?—A. Yes.

Q. Could others get that privilege if they paid for it?—A. I believe they could. We make arrangements with the directors of the Canadian National Exhibition.

By Mr. Sommerville:

Q. I suppose in connection with that they sell privileges at the exhibition to the highest bidder?—A. I believe, sir, this display that I refer to, is not paid for. They run it as an attraction to the exhibition; it is a mechanical display showing.

Q. In the process building?—A. Yes.

Q. With respect to the complaints that Imperial goods exclusively are sold in the Toronto Exhibition, that applies to other exhibitions, because we have had similar complaints come in; but I understand the situation is that those exhibition boards sell the exclusive privilege for the sale of goods?—A. That is correct.

Q. Whoever makes the highest bid gets the contract?—A. That is right, sir.

Q. And the contract that you have gives you the exclusive privilege in those cases?—A. Yes. I might add that our contract expired last year, and when we renewed this year, for I think three or five years to come, we agreed to carry an assortment of opposition brands.

By Mr. Young:

Q. You are paying for the place and you are going to advertise your competitors' goods in the place you pay for?—A. We did not say we would advertise, we would carry them in stock.

Mr. Factor: So that the customer could buy them?

The Witness: Yes. There is a telegram from Saint John, which I would like you to read, sir.

Mr. Sommerville: This telegram is from Mr. H. C. Green, manager of Louis Green's Cigar Store. Did we hear his name before?

The Witness: In Mr. Picard's evidence of the 15th.

Mr. Sommerville: I do not remember the name. This telegram is dated Saint John, N.B., May 16th.

> Mr. Spafford, Chateau Laurier, Ottawa, Ont. Understand my name has been used in a telegram sent to Ottawa making certain charges against the Imperial Tobacco Company's policy regarding window dressing I wish to emphatically deny any authorization or knowledge of this telegram nor will I sanction the use of my name and furthermore will deny any of its contents recently I had reason to ask Mr. Farry to state his companies policy in regard to window dressing his answer was that if their man dressed the background they would not permit us to display any competing brands but they would be willing to send us a background and providing we put it in we could display any other firms brands we liked.

Mr. Farry is, I understand, the manager of the Imperial at Saint John?

The Witness: Yes. That is all I have sir.

Mr. Sommerville: As we were adjourning last evening, some of the members who have given evidence indicated a desire to answer certain evidence that was given in reply.

JOHN HUGHES, called and sworn.

By Mr. Sommerville:

Q. You desire to reply to certain statements that were made yesterday by Mr. Spafford?

Mr. FACTOR: I should like to know what is going to happen if Mr. Spafford wants to reply to Mr. Hughes.

The CHAIRMAN: I was going to observe that we want to bring this to a finality pretty soon, so, Mr. Hughes, please confine your observations as far as possible to rebuttal, if you like to so state it, because we must bring this matter to a finality.

The WITNESS: That is just my intention. First of all, on behalf of ourselves and the other independent manufacturers, I should like to go on record as taking absolute objection to some of the suggestions made by Mr. Spafford yesterday that our claims were wild and irresponsible. I would like to go on record as taking objection to that very strongly. In the first place, the claim has been brought out by Mr. Spafford, while he would not admit those affairs, he possibly gave the idea that they might have been carrcid on, but unawares to the head office. Well, I think that it is a foregone conclusion that an organization is responsible for its employees' actions; to the extent to which those affairs have been carried on they must surely have been brought to their attention, and if they did not take the pains to have them stopped, I think they had no alternative but to accept the responsibility.

By the Chairman:

Q. What would you say to the suggestion that the independents have been the aggressors, and that they have been defending their position possibly in some isolated cases by retaliation?—A. It is childish, childish. Any aggressiveness we could possibly take individually, is so small that it is absolutely lost. In connection with the Toronto streamer affair, any streamers that were put up by our representatives there, were put up with the permission of the storekeeper. I am not saying that some streamers were not put up on Imperial windows, possibly that is right.

Q. By Imperial windows you mean what?—A. I mean windows that were dressed by them.

Q. Windows of independent retailers?—A. That were dressed.

Q. Which were dressed by the Imperial Advertising Department?—A. Yes. I am not saying there were not some of our streamers put on those windows, I am almost sure there were; but if we did not resort to using those windows, we would not be able to have any streamers at all.

By Mr. Young:

Q. Were these streamers put in front of their display?—A. I have not seen it personally. I could not say that without seeing it. I do not think that our men would put a streamer in the centre glass to obstruct their view; I hardly think that.

Q. But you expect the Imperial Tobacco Company to answer charges that they have been doing this, so I think we should expect the same from you?—A. In connection with these Ottawa displays I personally went out myself to see the displays in the Ottawa district, and I saw Imperial streamers on some of our windows. So while Mr. Spafford says this morning that he took it up last night—probably they went around and took them down before he went around. The night previous they had the streamers on our windows right here in Ottawa.

By Mr. Edwards:

Q. Where does the owner of the window come in on this business, has he nothing to say?—A. My information is that every streamer put up there was put up with the permission of the dealer.

Q. He still controls the window, doesn't he?—A. He should. I am not saying that the streamer business is not abused a little bit by all; but if we want to make use—if the independents want to make use of that medium of advertising, and if we are confined to putting in windows only in our own windows, well we might as well drop it altogether.

By Mr. Factor:

Q. Why can't you get together and decide upon a policy so far as matters of advertising are concerned. You are all here now and you could get together and decide on a general policy?—A. There is nothing impossible.

By Mr. Sommerville:

Q. Are you willing to meet in such a conference?—A. Naturally I can only speak for myself; as to the other independent manufacturers, you will have to consult with them.

By Mr. Senn:

Q. What do you say, Mr. Hughes, about that; are you willing to enter into an agreement, some such thing as a conference with the Imperial Tobacco Company, with a view to arriving at some arrangement that will avoid all these difficulties arising out of these practices?—A. Well, naturally we are not out for revenge or anything like that, all we want is fair play; if I could really believe that the result of such a get-together would bring satisfactory results, I think I would be in favour of it.

By the Chairman:

Q. Mr. Hughes, if I understand the position of the Independent correctly, it might be summarized in this way: your complaint is that by weight of influence the Imperial Tobacco Company have used their efforts to control advertising space in retail shops, and also to influence the purchase of their goods to the detriment of purchases of independent goods; that that condition militates against your trading freely. Make your comment, is that a fair interpretation? —A. That is.

Q. Now, listen: have you as independents taken notice of Section 27 of the Excise Act, which seems to me to offer you some protection. However, I want to make this clear, I am not now saying that such a condition is proven to exist; that will be for the Committee to determine. You make that allegation, if it is true, why do you not invoke Section 27 of the Excise Act, which reads as follows:—

> The Minister may declare forfeited any licence authorized by this Act in any case where a person who, being a manufacturer of any class of goods subject to a duty of excise, either directly or indirectly,
>
> (*a*) makes a sale of any such goods, or consigns them for sale upon commission, to another person, subject to the condition that the purchaser or the consignee shall not sell or deal in goods of a like kind produced by, or obtained or to be obtained from any other manufacturer or dealer; or
>
> (*b*) makes a sale of any such goods, or consigns them for sale upon commission, to another person, upon such terms as would, in their application, give more profit to the purchaser or the consignee if he should not sell or deal in goods of a like kind produced by, or obtained or to be obtained from any other manufacturer or dealer.

A. That ruling was only brought to my attention this morning.

Mr. Factor: I do not think, Mr. Chairman, that covers the situation at all.

The Chairman: It might not, but it certainly would if the condition is as alleged.

The Witness: Besides that, I think you would have extreme difficulty in trying to prove such a case, because they do not put anything like that in writing.

Mr. Factor: Not only that, but Mr. Spafford said that it was never a condition of sale with them to prevent the sale of their competitors' goods.

The Chairman: I submit that possibly this section might have been invoked in order to make an enquiry into the matter, to see whether the conditions actually obtained. Here we have one side saying one thing, and another side saying another; each one denies the accuracy of the statements of the other. We are not here to try disputes between individuals. However, I do not want to curtail you in making your statement.

The Witness: I will be very brief, Mr. Chairman, the suggestion was offered yesterday that the trouble here in Ottawa was a matter of ill feeling between our advertising men and theirs.

The Chairman: Hull.

The Witness: Ottawa and Hull, they work conjointly. I have been talking to my advertising man since and he says that is the first he has ever heard of anything like that; that he has no personal grievance with any of the Imperial advertising men, or anything. It is just a presumption that has no ground. It is reported to me also by him that one of the Imperial salesmen admitted to him that they took down their streamers here in Hull; furthermore, they reported the matter to the Montreal office—so it would seem that the Imperial Head Office are aware of these matters.

I would then refer to this meeting in Montreal. We had an arrangement that was made between certain manufacturers as respecting each other's advertising. That meeting took place some possibly two years ago and that was really brought about because at the time numerous complaints were being received from all over that advertising material was being interfered with. We found our advertising material torn down, also our streamers torn down, and all this kind of stuff. That was the object of holding the meeting. What was really decided at that meeting was this—some of the manufacturers were not dressing windows, and it was in the interests of the manufacturer who was not dressing windows that the manufacturer would have the right to put up a streamer on a window dressed by another manufacturer, because that would eliminate certain manufacturers altogether from that particular kind of advertising. What was agreed was this, that no manufacturer would put a streamer on the front glass of another manufacturer's window, on a window that was dressed by another manufacturer. He could put up that streamer on a door or on the side glass, in such a way as to interfere as little as possible with the advertiser's display.

I can show you in Montreal photograph specimens of windows that we had in that were so plastered with Imperial and Tucket window streamers that you could not see what was in the window at all.

The suggestion was offered yesterday by Mr. Spafford that our claim that they had such a big control over the trade was exaggerated, due to the fact that they were only selling about 5,000 accounts direct in Canada out of possibly fifty some odd thousand. To begin with, when he says 5,000 accounts he is referring I have no doubt to Imperial Tobacco accounts; but then if you add to that the number of Tucket accounts and B. Houde accounts it seems to me a whole lot more than 5,000 would be included. But then it does not stop at

that. There is a lot of accounts that they do not sell direct over which they exercise disciplinary methods through the promise that some day they may become a direct buyer, and that is the ambition of anybody in the trade.

By Mr. Young:

Q. Just on that point, Mr. Hughes: these people I understand are the retailers who get thirteen and a fraction per cent; that is, those who buy from the jobbers?—A. Yes.

Q. And those who buy direct get about 23 to 24 per cent?—A. That is right.

Q. Do you offer any similar inducement to dealers to handle your goods—preferred?—A. We all merchandise on practically the same methods.

Q. That is to say, you have some dealers who get 13 per cent?—A. Yes.

Q. And other dealers who buy direct from you, and they get 24 or 25 per cent?—A. That is right.

Q. Do you ever bring any pressure to bear on your direct dealers?—A. Oh no, we can't.

Q. You can't, why?—A. No. The direct dealers that we sell in possibly 99 cases out of 100 would be direct accounts of Imperial. Any influence we could bring to bear on them would be so small that it would be hardly worth while attempting it.

By Mr. Sommerville:

Q. I suppose a man who becomes a direct dealer with the Imperial Tobacco Company is in a position where he can really almost insist upon you making him a direct dealer?—A. If we did not, he probably would not handle our goods at all. If we open a new direct account 99 times out of 100 it is just because of the ambition of that dealer to buy direct from us to get on the Imperial's direct list. They just use us as a way to get that. That is why we do not open any more than we can possibly help.

By Mr. Young:

Q. How many have you?—A. I really could not say, offhand; I imagine if the Imperial have 5,000, we possibly have something near the same.

Q. You say you do not open any more than you can possibly help?—A. No, there is no advantage to us to do so.

Mr. Spafford mentioned yesterday, in connection with the question of cigars, that they did not exercise this rule in connection with their cigar sales; and offered as reference that there were 53 per cent of their cigar sales made in Ontario where they had independent salesmen. Although they have independent salesmen they were in conjunction with Imperial salesmen just the same. As far as policy goes I think they exercise—. And besides that he mentioned a minimum quantity of 500 cigars. I have in my office in Montreal a letter over the name of the B. Houde Company in which they advise their customers that they can buy one box of 50 cigars of Imperial lines at list price along with their merchandise. I would be glad to mail that for you to file as an exhibit if you wish.

By Mr. Sommerville:

Q. Selling their cigars to whom?—A. They do not make cigarettes, that was tobacco—one box of cigars, Imperial lines, at wholesale list price.

By Mr. Young:

Q. You did not finish your sentence in the answer you gave a moment ago. You said, as far as policy goes I think they exercise; what were you

going to say there?—A. While they exercise—I would say they exercise certain methods by which they get cooperation for the sale of their cigars on account of them having the privilege of buying their cigarettes and tobacco direct.

Q. Do you think that?—A. Yes.

By Mr. Edwards:

Q. Really, I may be stupid, but I cannot see how they object to that merchandising practice. If the Imperial or your company wish to sell so many cigarettes to a dealer and they arrange, now we will sell you so many cigarettes at a certain price; that is a merchandising practice, and I do not see where this committee has anything to do with it?—A. Possibly.

Q. There may be a question as to whether it is good practice or not?

By Mr. Senn:

Q. Mr. Hughes, could you inform the committee as to the percentage of the retail business you enjoy in Canada?—A. What—percentage of retail business?

Q. Yes?—A. Oh, I haven't even a rough idea; very small.

The CHAIRMAN: You are speaking individually.

Mr. SENN: I mean, of your company.

The WITNESS: Yes.

By Mr. Senn:

Q. Would you say that your share of the advertising is smaller than your share of the retail trade?—A. No, I would think that our percentage of advertising was higher than our percentage of sales.

Mr. FACTOR: That is where the point comes in, you say that the Imperial say that because they have 70 per cent of the business, they should have at least 70 to 80 per cent of the advertising.

By Mr. Senn:

Q. Does he say that he is getting a larger proportion of advertising than his trade amounts to?—A. No, no, that is not what I wish to convey; what I wish to convey is this—that our company spends on advertising a larger percentage in relation to total expenditure of the advertising on tobacco alone in Canada than on the window end—actual sales in relation to total consumption in Canada.

Q. You really did not answer the question I had in mind. Is the proportion of your advertising out of the whole of the advertising done in the tobacco business lower than the percentage of your retail trade?—A. I just don't get that. Do you mean the proportion that we get from the retailer?

Mr. YOUNG: Your actual advertising.

Mr. SOMMERVILLE: You mean, displays in stores.

Mr. SENN: Yes.

The WITNESS: Referring to displays in stores.

By Mr. Sommerville:

Q. What relation has the amount of display that you get in the stores to the volume of your business, the percentage relationship?—A. I would say that the percentage of display that we get in the store is much smaller than the volume of business we get in comparison to total sales.

Q. The point is, why should the retailer be under any obligation at all to make displays except as it suits himself?—A. He should not, that should be his privilege.

By Mr. Edwards:

Q. Unless it can be proven, Mr. Hughes, that some illegal practices are resorted to, or some pressure applied on these dealers to have them exclude the other person, where do you enter into the picture at all?—A. That is just what we are trying to prove, that such measures are exercised.

By Mr. Sommerville:

Q. Have you anything further, Mr. Hughes, in your answer to Mr. Spafford? —A. Reference was made yesterday again to the question of price cutting. To be quite frank I am perfectly willing to give credit to the Imperial Tobacco Company for doing their share in the maintenance of prices; but I would like to go on record that the independents have done their share.

Q. Yes, I understand. We have that very clear?—A. I would like to stress it still further. It was brought out by Mr. Spafford yesterday that probably our efforts did not count, but I think that is a little bit exaggerated, because if any independent manufacturer would hear about it immediately if he allowed his goods to be sold at a cut price. I have evidence of cases which happened in the past that the Imperial would allow their goods to be sold at a cut price to compete against us. I would like to make reference to Dan Peace of Hamilton, where such a thing occurred.

By Mr. Young:

Q. Tell us what happened there?—A. He was selling an independent manufacturer's line at cut prices and they started—I have not got the exact details, it happened some time ago; as a matter of fact I do not say he was buying from Imperial direct, but something like that; and they started a price war there on that account.

Q. Who started to cut the price; did the Imperial man cut the price?—A. Yes.

Q. Tell me, what is the matter with that?—A. There is probably nothing the matter with that, I am not objecting to it. It probably was a good method to stop price cutting. What I am trying to put out is this, that their contention that they were instrumental wholly in the maintenance of price is not right, that we have done our share. I am not objecting to their policy of stopping price cutting, that is not the point.

By Mr. Sommerville:

Q. Now, Mr. Hughes, what other point have you?—A. It was also mentioned yesterday by Mr. Spafford that the only way by which they could keep maintenance of prices amongst indirect buyers was by these disciplinary methods that they exercised. I do not think that that is a correct statement, because it is well known that no indirect buyer could cut his prices; the jobber from whom he buys his supply—he would have his supplies cut off if he continues to sell that price cutter; so that there is control over prices in the case of the indirect buyer without any disciplinary method from any manufacturer.

By Mr. Young:

Q. When you speak of price cutting, does that include price reduction?—A. By price reductions, you mean reductions made by the manufacturer himself in the retail price of his merchandise.

Q. Yes?—A. No.

Q. When you speak of price maintenance, you mean keeping to the uniform price stipulated by the manufacturer to the dealer?—A. That the goods be sold at the price set by the manufacturer for a particular line of merchandise.

By Mr. Ilsley:

Q. To the consumer?—A. To the consumer.

By Mr. Factor:

Q. How could the retailer afford to cut the price on a 20 packet of cigarettes when he only makes the small percentage he does?—A. That is the problem. We had trouble in Montreal a short while ago where they were giving away additional premium cards secured from private sources. They would give away a whole series of cards for which they paid 15 cents to an individual, and they would do that on a one dollar sale—that would be 15 per cent of their selling price. I do not know how some dealers could do it when they buy from the jobbers to sell on a 13 per cent basis. They were actually losing 2 per cent. How they could do it I do not know, it is beyond me.

By the Chairman:

Q. It is the same principle as the loss leader?—A. Yes, a loss leader on cigarettes; and it is principally loss.

Mr. Factor: I do not think so, Mr. Chairman, it is rather a struggle for existence.

The Witness: They were actually losing 2 per cent. How they do it I do not know. That is beyond my ken.

Mr. Sommerville: It is just another case of loss leaders.

Mr. Factor: It is rather a struggle for existence in business.

By the Chairman:

Q. Is there anything further, Mr. Hughes?—A. Just one or two small matters. A request was made yesterday by Mr. Spafford that he be given the names of the special complaints that had been made before the committee so that he could investigate them. Well, as mentioned before, we would prefer not to have these names passed on because we really do care for the consequences, and besides that we do not see that it is going to serve any useful purpose. We have only tried to lay before the committee special examples of what is being carried on, in the hope that that condition might be rectified, and for the information of the committee I might say that there are many more similar cases that we have not laid before you.

Q. Do you repeat your former evidence, Mr. Hughes, that this practice is a matter of general knowledge throughout Canada?—A. I do.

Q. You are emphatic on that?—A. Yes, sir.

Mr. Young: Here is a complaint that has been before us for two weeks accused of all kinds of malpractices, and they have been denied the right to have a lawyer speak for them. They have submitted evidence that if these practices are carried on to any extent, or at all, they are willing to correct them. They have asked to have the names of those who have made the complaints so that they may investigate them, but that information has been refused them and we say: No, you are guilty, we will not tell you when you did this thing, we are going to condemn you now.

The Chairman: We have not said anything of the kind.

Mr. Young: We are accepting the evidence of men who refused to put their names to the charge.

The Chairman: We are listening to their evidence, nobody has been accused up to the moment; we are simply listening to their evidence.

Mr. Young: I do not care how rich those men are or how bad they are, I do not think they are getting a fair deal.

Mr. Edwards: That may be your opinion.

The Chairman: What have you got to say?

Mr. Young: I think we should have the names of the men who are making these complaints.

The CHAIRMAN: We have them here, all of them.

Mr. YOUNG: And a company should be given a chance to answer these men.

The CHAIRMAN: We have them all here, and the committee will decide on what they are going to do with them.

The WITNESS: In which case we will have to supplement that file with a whole lot more.

By Mr. Ilsley:

Q. What objection have you?—A. Personally I have no objection whatever, but a lot of this evidence has been given to us in good faith by certain dealers who are really fearful. Mr. Factor mentioned himself yesterday where he personally tried to get two dealers here to give evidence and they would not do so.

Mr. ILSLEY: If the dealers themselves would consent to have their letters submitted to the Imperial then we ought to do that much to supply the Imperial with definite charges. I do not see what objection you can have to that.

The WITNESS: Personally I have no objection at all. I just have in mind the interests of the dealers themselves.

By Mr. Sommerville:

Q. You simply bring the matter to the attention of the committee through having the matter brought to your attention by retailers?—A. Yes.

Q. That is the situation is it not?—A. Yes.

The CHAIRMAN: All right Mr. Hughes, thank you.

Witness retired.

A. G. MUNICH, sworn.

By Mr. Sommerville:

Q. Mr. Munich, you had desired to be heard yesterday with respect to certain statements that were made. Will you just be good enough to give the committee the statement to which you have reference. A. Well, I do not want to take up the time of this committee. I have heard what Mr. Hughes has had to say, and I can only corroborate most emphatically every statement that I have made to this committee as being correct. It is a peculiar situation. Mr. Spafford would like to have the names of these individuals who submitted complaints. I have no objection that that should be the case, but in my own mind—if I may be permitted to say so—I am convinced that Mr. Spafford is not ignorant of the situation, and cannot be ignorant of that situation, because at the meetings that Mr. Spafford referred to that took place in Montreal between manufacturers and the Imperial Tobacco Company representative, numerous complaints were talked of but always with the excuse: Well, that is not the policy of the company. The dealer is absolutely frightened. It is not an isolated case; It is, practically speaking, the same with every dealer throughout the country. He is afraid that if he does not agree to display the merchandise of the Imperial Tobacco Company, and if he attempts to show evidence of supporting the independent manufacturers, he will be retaliated against by being struck off the list.

By Mr. Ilsley:

Q. You told us all that.—A. Yes, it is only a repetition of what I have said.

Q. Do not repeat, just rebute, if I may be permitted to suggest.—A. Well, that is about all I can say on this situation.

By Mr. Sommerville:

Q. As the result of your own experience?—A. Exactly.

Q. And in particular in your desire to endeavour to introduce your product?—A. Exactly.

Q. Your cigarettes, tobacco, and cigars?—A. Exactly.

Q. In not only your own province but the Dominion?—A. The Dominion from coast to coast.

Mr. FACTOR: Mr. Chairman, there is a suggestion I have to make. I do not know whether it will meet with the approval of the committee or not. Mr. Spafford told us that he had a book full of complaints in reference to this practice. I was wondering whether he could put before the committee privately all these complaints, and if he did then we might get somewhere.

The CHAIRMAN: The committee might independently check up both sides of the question.

Mr. FACTOR: That is what I mean.

The CHAIRMAN: We are not concerned in a dispute between manufacturers, but we are concerned in general with the practice in the merchandising of goods which might affect the system, shall I say, of distribution in the country as a whole, and that is the only application to the committee's order of reference that we should keep in mind. But my view is this—and we will discuss it in executive session before very long—that the committee itself should have a cross-check on some of this evidence rather than dragging people in here who do not wish to give names.

Mr. FACTOR: We can appoint an independent investigator to go through the complaints on both sides and satisfy ourselves.

The CHAIRMAN: We will take that into consideration.

The WITNESS: Well, it is exactly the same with us. I do not want the committee to think for a minute that we are in any way unfriendly with the Imperial Tobacco Company as an organization. On the contrary, we have no objection at all to any of their methods of merchandising. We are just as interested as they are in a proper and regulated merchandising method that may be necessary in the trade.

By Mr. Ilsley:

Q. You mean price maintenance?—A. Yes. We are thoroughly in accord with that, but what we are here for to-day is to try and impress upon the committee the practice as Mr. Stevens has just now mentioned. It is the practice, the method of placing the merchandise in the hands of the dealers to the detriment of the independent manufacturers. That is exactly the situation.

Witness retired.

The CHAIRMAN: Is that all?

Mr. SOMMERVILLE: That is all at this stage with reference to that inquiry.

The CHAIRMAN: This morning we had called for 11 o'clock the growers, and also the canneries trade were notified to be present. Who is the first witness?

Mr. SOMMERVILLE: In order that the committee may have before them the subject of the inquiry into the Fruit and Vegetable Growers' situation, I shall read the resolution that was forwarded to the committee by letter of March 2, 1934, from the Ontario Growers' Markets Council, as follows:—

The Hon. H. H. Stevens,
Chairman,
Parliamentary Committee on Mass Buying,
Ottawa, Ont.

Dear Sir,—At a joint meeting of the executive of the Ontario Fruit Growers' Association, the Ontario Vegetable Growers' Association, a Provincial Committee of Canning Crops Growers, the Niagara Peninsula Fruit Growers' Association, and the Ontario Growers' Markets Council, held in Toronto on Wednesday, February 28, the following resolution was unanimously adopted:—

"That it is the opinion of this representative body of growers that the Hon. H. H. Stevens be requested to proceed with an investigation of the Canning Industry from the cost of production, sale of raw product, chain buying, large wholesale groceries and departmental stores, and all method pertaining thereto and spread and profit in relation to that of the primary producer, the labour conditions pertaining thereto, quality and quantity of the product contained therein."

Following that resolution, notice was given to the representatives of these bodies and they are here to-day to present their case.

M. M. Robinson, sworn.

By Mr. Sommerville:

Q. Mr. Robinson, you represent the growers?—A. Chairman of the Ontario Growers' Markets Council.

Q. And you have prepared a brief?—A. Yes.

Q. All right, Mr. Robinson?—A. Mr. Chairman, we are presenting a brief on the relationship of canners, jam manufacturers, chain store system and some fertilizer companies to the fruit and vegetable industry of Ontario. This case is presented by the Ontario Growers' Markets Council and deals only with the situation as found to exist in Ontario.

The brief is a bit lengthy, but the subject is a wide one and, I might say, the brief is compiled from the evidence submitted by the growers. It is my object to present the brief, and we have growers here who will be prepared to support it.

Q. Associated with you?—A. Yes, sir.

We appear before you for the purpose of outlining certain abuses which have crept into the distribution of the fruit and vegetable crops of the Province of Ontario. To-day the plight of the market gardener and horticulturist is serious. Unquestionably some of the conditions encountered are due to general business conditions—to this period which His Excellency the Governor General has aptly termed "a period of economic restrictions." On the other hand many of the difficulties can be traced to the manner in which distribution is disturbed by certain organizations such as the chain stores and the manufacturers of canned goods and of jams. These people have been directly responsible for a policy of bearing down on prices of primary products until they have at last succeeded in placing the fruit and vegetable industry in jeopardy.

In addition, we propose to show how the grower—long a determined exponent of the principle of rugged individualism—is ground between two forces, for at the other end is to be found a series of business combinations controlling such necessities as fertilizers and baskets or containers, and setting up a price structure which removes the competitive spirit from the sale of such articles to the producers.

No farmer finds particular fault with any business combination which seeks to market its products at a profit, but he does find fault when the practices indulged in prove a load to the producer and are maintained at the latter's expense. Our contention is that the primary producer is entitled to a chance to live and if, because of his unorganized state, he is unable to combat certain conditions, he is justified in turning to the government for assistance, even though such assistance may of very necessity have to take the form of government interference with business. It is because of the difficulties now being encountered that the producers sought the introduction of legislation paving the way for controlled marketing of primary products with price-fixing powers in the hands of the farmers.

One other point might be mentioned. Some people profess, in all these conferences having to do with the price of primary products, to be interested in the welfare of the consumer. That is very fine. We believe, however, these gentlemen will hold with us when we state that the consuming public, and when we use that phrase we mean—as do nearly all others—the urban population, has come to a full realization that the urbanite's welfare is bound up in that of the ruralite and that until the farmer is re-established there is little opportunity of the shadow around the corner developing into anything tangible. We also believe the residents of city and town are alive to the need for fair prices for farm products and are willing to pay such prices.

Then, there is another angle. Who constitutes the consuming public? Would not an examination of the situation develop the fact that the farmer is a consumer just as much as the people of our cities or towns? Few people have any realization of the consuming power of the gardener or fruit grower. Only two weeks ago I visited a truck farm in the city of Ottawa, within the city limits, where sixty men were at work—a farm of 38 acres requiring receipts of $50,000 to pay operating costs. Surely the operators of that farm are consumers, and surely a business of that size is entitled to seek protection against the business groups who have set themselves up to seize all the cream and the best part of the milk.

For the purpose of keeping within the nature of this inquiry, we propose to confine our brief to three activities:—

1. Practices of canning companies and jam manufacturers;
2. Chain Store methods as they affect our industry;
3. The set-up maintained by the fertilizer companies.

Other phases could be introduced but we believe any action crimping the style of these manipulators would serve as a salutory warning to others and lead them into ways more wholesome.

The plight of the industry can be charged against two major evils. First, a collective and organized effort on the part of canners, processors, distributors, and chain stores to chisel down the price of our product. Secondly, collective and organized effort on the part of those who sell to the grower those materials which enter into the science of production. In all these operations there is to be found a pious indifference to the plight of the grower. This is best exemplified by the alleged statement of a general manager of a canning company who informed some growers that the stock manipulator or company promoter who heads the company had issued orders that the corporation had to show a profit of a million dollars for the year.

By Mr. Kennedy (Peace River):

Q. Who was that?—A. I believe it was the head of the Canadian Canners?
Q. Who made that statement?—A. My information is Mr. Drynan.

Dealing with the canning situation first, it is possibly advisable to emphasize one or two difficulties faced by the canners, difficulties which unquestionably enter into their methods of operation. Recently the cost accountant of Associated Quality Canners Limited, in an article in a trade journal, charged that many canning companies did not know how to maintain proper cost sheets and that until costs of production were definitely established and sales prices set up on a basis of true costs, chaos would continue to result. He then went on to say: "How long is the price war between canners and the knuckling down to large buying interests to continue? This could all be stopped in Canada by the concerted action on the part of four or five banks. These banks control the funds of the canning industry and could insist upon standardized costs being made and selling price in keeping with those costs maintained, and could refuse a line of credit to packers not conforming to the laid down code.

Here we have a frank admission of a price war and of the influence of "large buying interests".

Recently two conferences of Ontario canners and growers were held in an effort to reach an equitable price for tomatoes. These conferences emphasized the fact that 53 canning companies are operating in Ontario at the moment. Imagine the fun "the large buying interests" must be having with the 53? These conferences also brought out the contention of the canners that they could pay more for tomatoes if certain things were done. They unfolded a story of the competition now developing from Quebec and presented the following resolution:—

"That notwithstanding that the canners of Ontario have already made firm contracts for practically all the tomatoes required from the crop of 1934 at prices ranging from 25 cents to 27½ cents per bushel and can secure a much larger acreage on the same basis than it is possible for the Ontario canneries to properly market, yet it is fully realized that something should be done to increase prices to the growers, and we accordingly urge that a joint committee of canners and growers be appointed to meet the Minister of Agriculture and point out the need of joint action by the province of Ontario and the province of Quebec to regulate planted acreage, and likewise joint action in both provinces to establish a uniform scale of wages in the canneries of both provinces, as otherwise the canneries of Ontario would have to close up through inability to compete with the canneries of Quebec.

It is further urged that the Minister of the respective provinces bring to the attention of the Federal Government the need of increasing the British preference on tomato products from 10 per cent to 20 per cent."

Mr. Ilsley: They could enforce a combine, that is what that means?

The Witness: That is his contention. Here we have a practical admission of a price war.

Mr. Sommerville: And you growers are the victims?

The Witness: Yes; and it works around to us and we pay for all these price wars.

Unquestionably the development of a canning industry in the province of Quebec will be a given factor in the situation. Our contention is that the canners will bring that in themselves.

"We believe there is truth in what the canners claim in this regard. Support of this is to be found in British Columbia, where tomato growers are facing the same grave crisis as the Ontario producers. In this regard may we quote from Country Life in B.C., the official organ of the growers of that province:—

"Tomato growers of British Columbia are facing a grave crisis. So are the canners of this province. So are the growers and canners of Ontario. Why? Because Quebec has taken to growing and canning tomatoes and because of the low costs of labour in that province and the willingness of the people there to

work long hours for starvation wages. Quebec canners can lay down their prices that are below the actual cost of producing and processing in British Columbia.

It is a difficult situation and it is becoming more difficult because Quebec is increasing its tomato production and its canning output.

Ten years ago Quebec packed 25,000 cases. Last year Quebec packed 1,000,000 cases.

I might say I am quoting from a British Columbia publication. I do not altogether agree with some of those figures.

Last year 4,000 canning licences were issued in Quebec. This year more will be issued and next year there will be still more.

A juggernaut of commerce has been created in Quebec and it is rolling over and flattening out the growing and canning industries of British Columbia and Ontario.

In Quebec the companies lease canning equipment to families. The families are large and everyone works. Neither wages nor sales tax have to be paid.

If a similar condition existed in Ontario and Quebec, crisis would not exist. But a wage standard does exist in these provinces, also a standard of living obtains. These standards will be maintained unless a general economic crash occurs.

The Quebec wage scale, where it can be figured out, runs about $1 for 14 hours a day, or about seven cents an hour.

Ontario's scale is 18 to 22 cents an hour for an 8-hour day.

British Columbia tops the list with 30 cents an hour for an 8-hour day.

As a problem in mathematics, how can 30 cents an hour compete with 7 cents an hour or even with 22 cents an hour?

Q. Quebec ships by the all water route to Vancouver at no more than it costs to ship from Kelowna to Vancouver, which is about one-twentieth the distance.

So concerned are the growers and shippers of Ontario over the menace of Quebec that they are co-operating in an examination into what can be done about it.

Ontario growers, forced through the competition from Quebec, to sell at less than cost of production, are agitating for a uniform basis of payment, a code and the licensing of canners throughout the Dominion.

Mr. Young: How much cheaper do Quebec tomatoes sell than British Columbia?

The Witness: I cannot give you those facts, sir. They will have to be brought out by other witnesses.

By the Chairman:

Q. I understand what you are referring to is a quotation. Is that what might be called a family canning practice?—A. Not altogether.

Q. You mentioned 4,000?—A. What I am trying to bring out is that the canners in a recent conference contended that one of the reasons for the low prices being paid in Ontario was the competition from Quebec, and their argument was that they could not meet this competition in some districts because of the cheap article that is produced in Quebec.

By Mr. Sommerville:

Q. When you are referring to 4,000 you mean licences?—A. Home canners.

Q. You are referring to licences that are issued to families or homes to can the products of their farms?—A. Yes.

Q. And these home licences which occur again, I have no doubt, in your brief are developing very rapidly?—A. Yes.

Q. Both in Quebec and in Ontario?—A. And Ontario.

Q. And in order that we may have the system before us at this time probably you can tell us just what the system is under which the home canners operate?—A. I will have to leave that to one of the tomato men. I am not familiar enough with all the details.

Q. Generally speaking, somebody either sells or leases a machine to the family and also supplies them with cans and boxes?—A. Yes.

Q. And the family put up the canned goods, complete them and then hand them over to the agency that has supplied them with the machinery and cans for sale?—A. Correct.

Q. And they receive a certain guaranteed price?—A. I believe that the growers' contention is that the development of the home canning practice has been due almost entirely to the low prices paid by the canning factories for tomatoes.

Q. It is a development due to the fact that the canning factories have not paid sufficient for the tomatoes and the farmer has been forced to put them up himself in his own home?—A. Correct.

Q. And this has created one of the conditions to which reference is made here.

Mr. Young: What label is put on these cans?

The Witness: In the eastern counties I believe it is the label of the selling agency for the home canner.

Mr. Young: You do not know who makes the label for the farmer.

By Mr. Sommerville:

Q. The label of the farmer is not on it. I understand the label put on is the label of the chain store, the label of the large distributor, and the same label goes on the product of probably 100 or 300 homes.

Mr. Ilsley: When did this practice begin?

The Witness: Oh, it is some years back now.

Mr. Ilsley: How many years?

The Witness: I could not tell you.

Mr. Senn: It has been gradually increasing?

The Witness: Yes. It has increased quite rapidly now in the eastern counties of Ontario, but it has developed to a large extent in Quebec.

The Chairman: All right. Proceed.

The Witness: "We present this side of the canning picture before dealing with other features of the situation because it is given by the canners as the main reason for failure to pay a fair price for the primary products put in their cans. Without doubt events in Quebec are destined to create further confusion unless the efforts to get together on wage minimums are successful. At the moment the minister of agriculture for Ontario is waiting word from Quebec as to the possibility of a conference with the Federal minister of agriculture and the minister of Quebec."

Mr. Senn: Are all classes of canned goods being put up in this way?

The Witness: No, it is confined largely to tomatoes, peas, corn and beans, I think—about four articles.

Certainly the growers of Ontario are keen to have the truth brought out. They know some Ontario canning companies are paying wretched wages. We know the Ontario fair wage officers were called, last summer, into one plant in Ontario and we know that in that same plant a man worked 32 hours straight at 20 cents an hour and was discharged for falling asleep.

By Mr. Sommerville:

Q. Did he work straight ahead for 32 hours?—A. Yes. "The largest of the Ontario companies will not admit that mass buying has anything to do with the conditions prevailing in that company's plants nor will it admit, in conference with growers, that the company is making money. The growers find it difficult to reconcile the facts. In these conferences we are told that a large part of the 1933 pack remains in the warehouses yet we learn that tremendous quantities of canned tomato products found ready sale in Britain and that one very large company shipped 450,000 cases of catsup to England last year and was forced to purchase from another company when their own supplies had been exhausted. And this company is building a very large addition to their plant at the present time. Examination of the situation presents facts and figures which do not jibe. All that we can do is give you a general survey and leave the baby on your doorstep with the thought that something will be done about it.

Beyond doubt the time has come for a recognition of our claim that all canning companies should be forced to provide the government, in confidence, with the nature and the extent of the carryover of each year's pack. If this were done the growers would be able to prove the yearly claim, made in all price negotiations, that there is a large supply on hand. This year the canners contend they have on hand a large supply of tomato products. The growers, frankly, refuse to believe it. They were told the same yarn a year ago and yet last fall witnessed the most frenzied rush for tomatoes in the memory of any native."

Mr. Senn: Did the price go up?

The Witness: No, the price did not go up as it did in some districts.

Mr. Edwards: There were whole districts where tomatoes were left on the field; they did not harvest them.

The Witness: Not last year.

Mr. Edwards: The year before.

The Witness: Yes. I touch on that later.

By Mr. Sommerville:

Q. Do you deal with that later in the brief—with the question of the prices—the rapid advance in prices after the contracts had been completed?—A. I know that in the Leamington area when some of the companies entered there in an effort to pick up tomatoes that the prices did jump, I think, at the finish a total of 10 cents a bushel from companies bidding against each other. Heintz had contracts, and in spite of the fact that their contract called for a given price, before they were through they of their own accord had raised the price in order to meet the competition from the buyers from the Toronto factory. So that the grower did benefit last year as a result of drought conditions.

Q. Your statement, however, is just in support of the argument that the canners told you before that they had large quantities on hand?—A. What we tried to bring out is that every year in price negotiations we are told the same story: there is a large carry-over, and our contention is that if the government have the information in confidence we could go to the government and not secure the individual figures of any one company, but we could check their contention that they have a large carry-over. I believe in connection with the carry-over that it is the policy of one or two companies to keep a considerable supply on hand to protect them against the possibility of a short crop the following season, and that may always be the carry-over that they refer to. I think that information, sir, is quite desirable.

The CHAIRMAN: It is a question, I may say, that has been exercising the Bureau of Statistics for some time. I think, possibly, the committee might hear from Dr. Coats on this subject a little later. There is no secret about it; it is quite a controversial point. The canners, no doubt, will give their views, and I think that we had better hear Dr. Coats later on. In the meantime, I will suggest that the committee take particular note of this observation by the growers' representative.

By Mr. Ilsley:

Q. What is it they say they carry over?—A. We were negotiating the past two or three weeks for asparagus. They contend they have a large pack and because there is a large pack on hand "We cannot pay the price." If it is tomatoes, "We cannot pay the price; we have a large pack, a large carry-over."

Q. Of what?—A. Of the product—canned goods.

The CHAIRMAN: And the canners strongly object to disclosing what their stock is at any given time?

The WITNESS: I believe their argument is that one company does not want to disclose to the other company what their stock on hand is.

The CHAIRMAN: That is not necessary; it is all in confidence.

The WITNESS: We do not ask for that.

"The production of tomatoes for canning factory purposes under conditions of contract now offered by many canning companies is most unsatisfactory, and is resulting in a very depressed financial condition of the men engaged, to any extensive degree, in this work. The contract price is entirely too low. Average cost for the production of tomatoes in the province of Ontario, worked out by growers representative of Niagara, Central and Eastern Ontario districts, is as follows:—"

I believe this scale of prices is worked out on land costing $100 an acre which, we figure, is the lowest price you can consider land of this sort at.

"Rent of land..	$ 8 00
Plants, 3,000 at $5 per 1,000..	15 00"

You may not know that the practice is for the canning companies to raise plants and sell them to the growers.

"Fertilizer, 750 pounds..	$14 40	
Manure, 12 tons at $1.25..	15 00	
Ploughing and preparing the soil..	8 00	
Dropping fertilizer and planting..	2 25	3 75
Cultivating five times..	4 05	5 55
Hoeing..	3 00	5 00
Picking 200 bushels at 5c. per bushel..	10 00	
Hauling 200 bushels at 4c. per bushel..	8 00	
	$86 10	$92 70
Average..	$89 35"	

Mr. SENN: Is that a fair average of production?

The WITNESS: They are the best statistics we can get, Mr. Senn. They are to the effect that the average production in the province of Ontario is 200 bushels. And there is another factor in it; it seems to be a general practice for canning companies to take not more than 200 bushels to the acre from the growers.

By Mr. Sommerville:

Q. Uusually their contract provides that they will buy at a certain price the product of that farm in tomatoes at the rate of 175 to 200 bushels per acre?—A. At a given price.

Q. At a given price?—A. Yes.

Q. You have taken the figure 200?—A. We have taken 200. This is the basis of a two hundred bushel delivery which is about average for these districts. It does not allow of return for management nor does it allow for any margin of profit.

Now, the price to-day is 27½ cents, and you can readily see that on a 200 bushel delivery at 27½ cents the grower cannot reach his $86.10.

Mr. YOUNG: What do you do with the grower who gets 300 bushels to the acre?

The WITNESS: I refer to that a little later.

By Mr. Sommerville:

Q. At the present time 200 bushels to the acre at 27½ cents will produce how many dollars?—A. $54.

Q. $55 an acre for his tomatoes?—A. Yes.

Q. In other words, that is $44.35 short?—A. No, $31.

Q. That is $31 per acre short of the average cost of production?—A. On a 200 bushel delivery.

By Mr. Kennedy (Peace River):

Q. What I want to know is how you manage to carry on at all. Suppose you strike out the rent of the land?—A. I do not know how he carries on. I do not grow tomatoes for canners. I would not grow them.

Q. They must be going behind.—A. They are going behind. I think our story will show why they do it, later on.

By Mr. Young:

Q. Mr. Robinson, can you tell me where land that you lose money on is worth $100 an acre?

Mr. EDWARDS: You go down in that district and try to buy it.

The WITNESS: I am operating a $1,000 an acre farm. That is what it cost me.

By Mr. Kennedy (Peace River):

Q. You would not break even if you struck out the land value?—A. No. These costs are absolutely worked out. I mean, they are fair costs.

By Mr. Sommerville:

Q. Will you continue?—A. Yes. Canners apparently recognized that production costs vary in different parts of the province, and contracts offered vary in price according to locality, and the disposition of the canners. Growers have been forced to contract for prices varying from 44 cents to as low as 22 cents per bushel (60 pounds) of tomatoes. The growers' contention of an equitable price according to production zones (zones established on the basis of cost of production, considering investment, rates for labour, taxes, etc., follows. This is the contention we have set up:—

Zone No. 1.—Kent, Essex, Lambton, and Elgin, flat rate of 35 cents per bushel.

Zone No. 2.—Counties of Norfolk, Oxford, Brant, Wellington, flat rate of 35 cents per bushel.

Zone No. 3.—Counties of Wentworth, Halton, Lincoln, Welland, Haldimand, flat rate of 45 cents per bushel.

Zone No. 4.—Toronto district, including Peel, York, flat rate of 50 cents per bushel.

Zone No. 5.—Counties of Ontario, Durham, Northumberland, Prince Edward, flat rate of 35 cents per bushel.

By Mr. Young:

Q. Why this difference?—A. Land values, largely one factor; taxes.

By Mr. Sommerville:

Q. Labour?—A. Labour costs. Operating in the Toronto district, your overhead is much heavier than it would be in Northumberland or Norfolk.

By Mr. Senn:

Q. How do these prices compare with the retail prices of tomatoes, generally?

The CHAIRMAN: Fresh tomatoes?

By Mr. Senn:

Q. Yes, fresh tomatoes?—A. Oh, they are much lower.

Q. They are much lower than the retail price?—A. Yes. You are talking of the basket business?

Q. Yes?—A. Yes, much lower. We are very happy with basket conditions. The lowest I have got in several years is 20 cents a basket.

Q. Is that early?—A. Yes. The basket business is over invariably in our district before the canning business starts.

Q. There is a certain amount of retail trade while the bulk of the crop is being harvested. How would prices compare there?—A. A certain amount of basket trade while—it is being harvested?

Q. Yes, I suppose small retailers, on the farmers' markets and through the stores?—A. Well, the practice in some districts,—this is where it helps in some districts. Take the Burlington area, which is not a heavy canning area of tomatoes now, where we produce tomatoes for the wholesale trade, for the consumer direct, and we grow early tomatoes, specialize on them. We basket them; and possibly at the end of the season after the basket trade is pretty well finished, and we are in competition with what we call the back country producers, the canners may come along, as they did last year, and clean off our patches at a very cheap rate. The grower who sells on that basis, figures what he takes at the end of the season is to the good.

Q. Do you think it is a good practice?—A. No, I don't think it should be permitted.

Q. It must depress prices?—A. It does; but he has got his crop off.

By Mr. Sommerville:

Q. Generally speaking, with the canner contracts, the farmer does not engage in the basket business?—A. The districts I am talking about from the standpoint of this brief, like Northumberland, Prince Edward and Norfolk are straight canning crop propositions.

Q. Not a basket crop?—A. No.

By Mr. Senn:

Q. They are not allowed?—A. They are allowed. They are not early enough. But they don't do it.

By Mr. Factor:

Q. Zones 1, 2 and 5 at 35 cents a bushel for 200 bushels only gives $70. That is not even the cost of production according to your table at the top of the page?—A. This part of the brief has been worked out from the growers, one in each county, and they have done it in an effort to meet the competition from the other side.

By Mr. Sommerville:

Q. That is this 35 cents is a compromise price?—A. Yes. These growers in Norfolk, Northumberland and Prince Edward counties claim that if they can get 35 cents a bushel, if they deliver all their output per acre, they can make money.

Q. They can produce more than 200 bushels?—A. Yes, they can produce more. It is possible to produce up to 500 bushels an acre, and some growers do deliver 500 bushels an acre to the canners.

Q. Although the contract may call for only 175 or 200?—A. The thing they object to is being held to 200 bushels to the acre.

By the Chairman:

Q. Is that in all the contracts?—A. I have the contracts here, which I intend to submit.

By Mr. Sommerville:

Q. Generally speaking, there is a restriction in all the contracts?—A. Yes.

The CHAIRMAN: Possibly it will be just as well to file them at this stage, if you have them handy.

By Mr. Kennedy (Peace River):

Q. Is 200 bushels about an average yield?—A. No, it is a low yield.

By Mr. Senn:

Q. I don't know whether it is the time to ask this question or not, but if the contract is being filed perhaps it is just as well. That contract does not bind the canners to take any set amount?—A. No, the canner will shut you off any time he wants to.

Q. Has that been done quite frequently?—A. Yes.

Q. I know it is in my own county?—A. I deal with that further in the brief.

By Mr. Young:

Q. What is the object of putting 200 in if he does not have to take it, and he can take more if he wants to? What is the object of that?—A. I am not familiar enough with that subject.

Mr. SOMMERVILLE: It means that he limits his obligation.

Mr. YOUNG: He has no obligation.

Mr. SOMMERVILLE: Yes. He limits his obligation, if he wants to. In other words, the option works only his way.

Mr. YOUNG: But Mr. Robinson just said he does not have to take the 200.

Mr. SOMMERVILLE: That is perfectly true. There is a clause in most of the contracts to the effect that they may stop deliveries at any time and not take the 200; but if he continues, he can say that he will not take more than 200, and he gives out then to the farmer, a basis for his crop.

The WITNESS: One of the practices is to contract for more than their actual needs.

By Mr. Factor:

Q. Is not fixing it at 200 rather to limit production to a 200 bushel yield? —A. Oh, no.

By Mr Edwards:

Q. Do you mean contract or do you mean option?—A. They call it a contract.

Q. It is not a contract if he is not bound?—A. The grower is bound but the canner is not bound. I would like you to read it.

Q. Head I win, tail you lose.

By Mr. Ilsley:

Q. He has to deliver up to 200?—A. Yes; if he is called upon he has got to deliver.

By Mr. Young:

Q. Suppose he does not grow 200, what does he do then?—A. If he does not grow that, it would be a pretty poor outlook.

The CHAIRMAN: I think we had better take a little time and examine the contract, and question him on it later, when we are more familiar with it. Will you just proceed with your brief now?

The WITNESS: I might say when it comes time to deal with this, we have growers here who are more familiar with it. I am not a canning tomato grower, and it is difficult for me.

These prices are subject to the contract including the stipulation that all tomatoes be bought on grade, with a differential for No. 1's of 7½ cents per bushel up from the flat rate price, and for No. 2's of 7½ cents per bushel down, as for example, zones in the 35-cent flat rate per bushel area, No. 1's would be contracted for at 42½ cents per bushel and No. 2's for 27½ cents. It is also desired that the Department of Agriculture establish and supervise the graders, expenses of grading to be borne half by the growers and half by the canners. Delivery is to be on the following basis: quantities in excess of fifteen bushels per day for each acre contracted, shall not be received except by buyer's request unless at least 65 per cent of the seller's deliveries are No. 1 tomatoes, when the total marketable quantity shall be received. Briefly the grower's request, first, a sufficient price; second, recognition of quality of product; third, sufficient delivery to pay growing costs at the contract price. Copy of the proposed contract for tomatoes, corn and peas, and a 1934 tomato contract are appended.

By Mr. Ilsley:

Q. How many grades are there now, just No 1's and No. 2's?—A. Yes.

Q. Who grades them, the canners?—A. The practice has been for the canners to do the grading.

Q. Does the government not do grading?—A. Well, they are. They have been working on this same practice of these companies where they put in a government grader, and the grower and canner pay the cost between them.

Q. Is there any complaint about the grading that the canners give you?

Mr. SOMMERVILLE: Oh, yes.

The WITNESS: Plenty of them.

By Mr. Sommerville:

Q. I think the tenor of the complaint is that the contract may be for 27½ cents, and when the tomatoes are delivered somebody says they are only second grade and they pay 20 cents?—A. Unquestionably the practice is that, in a glut year or big crop year, the grading is severe. In a drought year, such as last summer, grading is forgotten about. That is absolutely the condition.

By Mr. Ilsley:

Q. What basis is the grading on, size?—A. Size, colour.

Q. The regulations are made by the Department of Agriculture here, are they?—A. No, by the canner, in this contract. It is in the contract. The government sets the grade for the basket trade, but not for the canning trade.

Q. Not for the canners?—A. No.

By the Chairman:

Q. All right, Mr. Robinson, will you proceed with your brief?—A. Yes.

Canners will argue that they can contract for their supplies on the basis of prices mentioned. We submit that in canning factory areas many of the growers have become so involved as the result of depressed canning factory prices and unsatisfactory conditions under which crops have been received by canners, that these growers are forced to accept contracts at prices which will not pay production costs. The vicious condition exists wherein canning factory contracts are recognized as collateral for the securing of loans from banks and in order to secure sufficient capital with which to finance—to buy seed, fertilizer, etc. These growers must have a canning factory contract, even if at a price which necessitates the giving of labour, the furnishing of the fertility of the soil and the possible profits from live stock in order to carry on from year to year.

By Mr. Factor:

Q. May I interrupt for a moment. Previously you mentioned something about the canners growing plants and selling them back to the farmers?—A. Yes, that is the seedling plants.

Q. Where do they do that?—A. In their own hot-beds. They may have somebody grow them for them.

By Mr. Ilsley:

Q. Why did you refer to that as a vicious condition?—A. It is a vicious condition, because a man who is hard up and needs cash money in the spring to carry on operations will invariably accept a lower price than the chap who has a little money and can fight.

By the Chairman:

Q. Your point is that he cannot get a loan from the bank unless he has a contract?—A. Yes; and if he has not any money, and he has to begin to operate his farm in the spring—

By Mr. Sommerville:

Q. If he has a contract, he can take the contract into the bank and on that basis get money, get an advance against that contract?—A. Yes.

By Mr. Young:

Q. Do I understand that different farmers have contracts at different rates from the canner? The man who is hard up and needs money has to accept a poor contract?—A. No, the rates differ very often between areas, but not so much within the area.

Q. How does it hurt him?—A. What?

Q. If the man who does not need money from the bank gets the same price on the contract as the man who does, I don't see how it hurts him.—A. Simply because the man who is hard up, needs cash and needs that contract, to secure the cash is naturally in the position where he will accept a lower price than the fellow who is independent. In the end, that fellow sets the price. The man who sets the price is the man who is hard up.

By Mr. Sommerville:

Q. The fellow who is hard up sets the price for the independents?—A. Yes.

By Mr. Kennedy (Peace River):

Q. And the first charge against the crop is the bank loan, and not his living?—A. Yes.

By Mr. Young:

Q. What would you suggest as a remedy for that?—A. We are going to leave that to you.

Mr. EDWARDS: If we just got that contract, and read that contract, we might get an idea of it.

Mr. YOUNG: We are dealing with the banker. The banker wants a contract before he will loan the money, and I want to know what Mr. Robinson would suggest instead of that.

The WITNESS: I am just a poor farmer.

By Mr. Ilsley:

Q. It comes to this, that the tomato growers are hard up. That is the vicious condition you are referring to?—A. They are hard up because they have been selling produce at ridiculously low prices, largely through disorganized conditions.

Mr. ILSLEY: They are having the same trouble as all the other farmers in Canada, and a lot of others.

By Mr. Sommerville:

Q. Will you continue?—A. This is the custom to such an extent that it is not an uncommon practice for bankers to more or less dictate, to men who have loans outstanding, the necessity of having a contract with a canning company if they are to secure further recognition with which to carry on for another year.

By Mr. Kennedy (Peace River):

Q. Has this any bearing or any connection with the former statement that banks control some of your factories?—A. We believe that the banks do control in the usual way.

By Mr. Young:

Q. In what way is that?—A. Accommodation.

Q. You mean they have loaned factories money also?—A. Yes. I think the farmer is in a rather awkward position. There may be a bank here that has made an advance to a canning company, and it is possible that the bank may be interested in the canning company buying tomatoes at the same low price, and they will therefore urge the growers to accept contracts. I don't say it is done, but you can see the possibility.

Q. You don't mean there is a possibility of the company not being able to pay its bank loan unless it gets these contracts at low prices?

By Mr. Sommerville:

Q. You are not making that suggestion?—A. No, I am not familiar enough with it.

By Mr. Ilsley:

Q. What the banks want to know is that the grower is going to sell the crop?—A. I think all the bank is interested in, in any case, is getting its money back. I don't think it cares much else.

The CHAIRMAN: All right, Mr. Robinson, will you proceed?

The WITNESS: Yes. Some canning companies are not content with paying too low a price for tomatoes, but insist upon the growers also contracting an acreage of corn and peas if they are to secure a contract for tomatoes. The contract prices for corn and pease this year are $8 a ton for corn and $30

to $35 a ton for shelled peas. The land used for these crops at that price, picking and delivery costs deducted, would show the farmer considerably more profit if utilized for the production of livestock; hence growers are forced to suffer the further indignity of producing two or three crops at an additional sacrifice of labour, soil fertility and food for livestock.

Crop production under normal conditions of weather, prevalence of disease affecting the crops, and attacks of insects, is recognized as hazardous. In the production of canning factory crops in addition to these hazards owing to the contracts which growers must sign, the additional hazard of restricted delivery more or less places every year in the category of a poor crop year. This condition results from canners contracting sufficient acreage to permit of a full pack being put up in a poor crop year. Of necessity, this results in an over supply of these contracted crops on a good crop year. When this latter condition obtains canners refused to accept delivery of more than a small proportion of the crop from all but a small percentage of their growers, whose total marketable crop is accepted. The men of this group from whom the total yield is accepted are commonly referred to as leaders. They are usually efficient growers and deliver from 350 bushels up to 500 bushels of tomatoes for each acre contracted. As a result of this consideration on the part of the canners, they are usually willing to contract each succeeding year and hence the term "leader growers", who influence others into signing contracts at an insufficient price.

By Mr. Sommerville:

Q. That is, there are two things that you have brought to our attention here. First of all, the canners sign up contracts which will take care of any possibility of a poor crop?—A. Yes.

Q. In other words, larger than is necessary?—A. Yes.

Q. In doing so, they limit in their contract the amount that they are obliged to take to a certain amount per acre?—A. Yes.

Q. For instance, I observe in this contract that has been filed here, Canadian Canners, Limited, grower's contract, these words:—

> When in its opinion, the company is unable from any cause to take proper care of the produce at its factory for proper canning, the company, upon notice to the grower, may limit the delivery of produce to a quantity per acre per day, which, in its opinion, will allow it to handle the produce in such a manner as to take proper care thereof, and the company, at its option, shall not be bound to accept from the grower a quantity in excess of one hundred and seventy-five bushels per acre.

A. Yes. They can go on and take more.

Q. If the condition should be that it is a poor crop year and they need them?—A. Yes.

Q. But if it is a good crop year, a large quantity being offered, in pursuance of their contract, they can limit the amount taken?—A. Yes.

Q. Now, in addition to that, you say there is another feature, the canners take what is called the leader grower in a district, and he is a man who has the reputation of growing a large crop, and they sign up the contract with this leader grower, whose cost of production is apparently lower because of his quantity?—A. No, his cost of production is not lower. He is willing to take the price, because he is sure of delivery of his entire output, which puts him on a profit-making basis.

Q. They will take from him 350 to 500 bushels, eventually?—A. Yes.

Q. And make his contract the basis for signing up others?—A. Make it a factor in setting the price.

By Mr. Young:

Q. On what basis do they select those leader growers?—A. I cannot tell you.

By Mr. Sommerville:

Q. I presume it is out of experience of the company?—A. They know who they can play with, I guess.

By Mr. Senn:

Q. Do the leader growers have a different type of contract?—A. I do not think so, no.

Q. There is a tacit understanding between the leader growers and the company that his crop will be fully absorbed?—A. Yes. In 1931 one grower with a contract of twenty-one acres of tomatoes was shut off from further delivery by the canning company with five thousand bushels of tomatoes left on his field, one thousand of which were picked and in crates ready for delivery. Another grower with twenty-three acres contracted, had seven thousand bushels left on his field, one plot of four acres from which not a single tomato had been delivered.

By Mr. Young:

Q. How many did he yield?—A. I have not that information.

Q. You do not know what his yield was?—A. No. Another grower with 23 acres contracted, had 7,000 bushels left on his field, one plot of four acres from which not a single tomato had been delivered. In Northumberland county in 1931 one factory closed its doors on the 8th of September. Ordinarily the tomato crop is at its best during the last three weeks of September, as to both quality and quantity. Many of this company's growers had practically no tomatoes delivered to the factory that fall. Another canning company, in the same year, ran a total of ten days during the latter part of August and early September. Some of its growers who had contracted up to four acres were not able to deliver a single tomato.

Q. What was their idea in shutting down after working only ten days? Surely they built the factory to run it?—A. I cannot tell you.

Q. Could they not sell their pack?—A. I can get the information for you through the growers from this county, but I cannot give it to you now.

By Mr. Sommerville:

Q. Was it that they had obtained enough tomatoes at the time of their closing?—A. It may have been a branch factory of a large concern, and they decided not to operate that particular factory. I cannot tell you. The tomatoes were just coming up to their best grade when the factory was shut down. Instances of farmers having hundreds of bushels held back and spoiled in crates due to the factory not taking delivery, can be proven. In a good crop year farmers loads of tomatoes have been docked as high as 60 per cent, yet all the tomatoes, if left at the canning factory platform were put in cans. In 1931, Mr.——— brought to the——— canning company, 80 crates of tomatoes. These were rejected by the grader at the factory. Mr.——— asked permission to place these tomatoes on the company's platform and return in the afternoon for the purpose of having the grader show him just why this particular load of tomatoes should be rejected. Upon his return in the afternoon he found all his crates empty and was informed that the tomatoes had been canned. This load had not been weighed but he was paid the full price for 80 bushels of tomatoes.

By Mr. Factor:

Q. What point do you make in that?—A. When they start in to reject, an aggressive grower sometimes can beat them at their game, and force them to accept the tomatoes.

Q. What do you mean by reject Reject completely?—A. They may not; they may decide they have enough tomatoes, or this load is not up to grade, reject them because not up to grade. They will find some reason to reject them.

By Mr. Kennedy (Winnipeg):

Q. Is there such a general practice?—A. Yes, quite prevalent.

Q. In using those excuses in rejecting them?—A. Yes.

By Mr. Sommerville:

Q. Where a canner has——A. When he has got sufficient—he thinks he has,—he will find plenty of loopholes in which to turn back the loads.

By Mr. Kennedy (Winnipeg):

Q. Does he have to resort to that expedient to return them? Can he not just refuse them?—A. I question whether he can just refuse them, by the contract.

By Mr. Sommerville:

Q. He must take up to 175 bushels?—A. There is no doubt he grades severely in good crop years. If there is a plentiful supply of tomatoes, he grades severely, but if he wants tomatoes badly, he forgets about it.

By the Chairman:

Q. Your complaint is the grading is not done independently, but it is done by the canner?—A. In many cases.

By Mr. Senn:

Q. As I understand the contract, it provides that before they can refuse tomatoes, they must notify the grower; is not that true?—A. I have known them to refuse only on the loading platform.

The CHAIRMAN: In Ontario?

The WITNESS: Yes; after the grower has waited around half a day with a load of tomatoes, there are cases where he has been turned back.

By Mr. Factor:

Q. What can the grower do about the rejected tomatoes?—A. Dump is the prevalent practice. He might take them home, if he is in a certain district, and try to basket some and upset the basket trade, but there are very few in a locality where they can do that.

By Mr. Kennedy (Winnipeg):

Q. Some of those rejected tomatoes are completely lost?—A. Lost, yes.

By Mr. Heaps:

Q. How does the supply compare with the demand?—A. To be honest with you, I must admit in an average year the supply is excessive. We must admit that. I do not think it is due to over production.

Q. Under consumption?—A. No, I do not think it is under consumption. I think it is entirely due to the faulty distribution. I do not think there is an overproduction of agricultural products in Ontario. I do believe it is the very poor distribution which creates an appearance of over-production; that is, in vegetables and fruit.

By Mr. Factor:

Q. Distribution of the primary products?—A. Yes, fruits and vegetables.

By Mr. Sommerville:

Q. In other words the distribution of tomatoes by the present system is limited to the area in which they are actually produced. If you had a wider area—A. I do not think we secure full distribution, and that contributes to somewhat glut conditions which are not true conditions, which may give you the impression of over-production. I do not think it is over-production.

By Mr. Edwards:

Q. How far afield do you go in your basket trade?—A. I have shipped tomatoes from Burlington to Newfoundland.

Q. They are fairly green when they start out?—A. What we call half ripe. Just a slight touch of colour in one spot.

By Mr. Heaps:

Q. Do you believe the Canadian market could absorb a great deal more of goods if there was a proper system of distribution?—A. Yes, sir.

By Mr. Senn:

Q. Bulk or basket?—A. All kinds of fruits and vegetables, including tomatoes.

By Mr. Ilsley:

Q. Do you send them to the Maritime provinces?—A. Yes, sir, right along.

Q. We will have to stop that.

Mr. SOMMERVILLE: Mr. Ilsley represents the famous Annapolis valley.

The WITNESS: We will have to stop your apples coming up this way.

Mr. ILSLEY: They do not come.

"In the case of farmers contracting for peas in a good crop year, it is a common practice for the companies to order the peas in early when very few peas in the pod are of sufficient size to go into the tins, consequently the farmer secures a disastrously low yield. Later in the season it is a practice to order a certain area of peas cut for delivery the following day, with the deliveries held up to a small portion of the amount ordered in. As a consequence the balance of the crop is spoiled in the field due to wilting, hence the reason for attaching the pea contract as a condition to the tomato contract."

By Mr. Young:

Q. What do you do with the balance that is left in the field?—A. It is just done, lost.

Q. Are they no good for stock feed?—A. It becomes green manure or stock feed. With corn on a good crop year, owing to over contracting of acreage, corn is held back in the field by canning factory field men until too hard for canning and then rejected, with the farmer getting only a small portion or in some instances none of his crop into the factory.

By the Chairman:

Q. That is a rather serious statement?—A. It is made, sir, by the corn growers of Northumberland county.

Q. "Corn is held back in the field by canning factory field men until too hard for canning and then rejected."—A. I believe it is the practice, yes, sir.

Q. From your experience you think it is true?—A. I cannot say from my experience; I have never grown corn.

Q. Have you men who will state that?—A. This is submitted by the Northumberland Fruit and Vegetable Growers' Association; it is part of the brief.

By Mr. Kennedy (Winnipeg):

Q. Prior to the submission of those facts, had that come to your knowledge?—A. As an individual?

Q. Yes.—A. No, my district is not in this—

Q. You have Northumberland men here?—A. I have Northumberland men here.

Mr. YOUNG: How long is corn fit for canning?

The WITNESS: I cannot tell you.

The CHAIRMAN: We will get that later.

The WITNESS: I would rather you would not question me on some of those things, because, as I say, I do not grow some of those products, but we have men here who do.

The CHAIRMAN: I just draw attention to the seriousness of the statement. We will expect it to be supported.

The WITNESS: Yes, sir; I will make a note of it. Loads of excellent corn have been turned down upon canning factory representatives finding one or two off-colour kernels in an ear, as being not true to variety, although produced from seed supplied by the canning factory.

"It is a recognized fact that the canning industry in Ontario is over equipped to the extent of 300 or possibly 400 per cent and canning companies are endeavouring to meet competition carrying this load. To further aggravate this condition, small home canning outfits are springing up at an alarming rate throughout Ontario. This further competition, unless recognized by organized canners as the result of unsatisfactory contracts offered and these growers given satisfactory contracts, will tend to multiply and still further demoralize the industry and gradually work to the disadvantage of the canning companies. As the regular canners are forced out of the business so will a large percentage of the growers be forced out, many not being in a position to operate home canning outfits."

By Mr. Factor:

Q. To what do you attribute this over-expansion of the canning industry to 300 or 400 per cent?—A. I cannot give you the story.

By Mr. Young:

Q. Do you mean they have 300 or 400 per cent more capacity than they can sell?—A. I think what they are trying to bring out is there are too many canning plants.

By Mr. Edwards:

Q. I was going to ask this question when Mr. Young spoke up: When these these canning factories were operated as individual units by individual owners, did this condition of affairs exist?—A. No, I think—

Q. Before the combination?—A. I think the condition has developed since one or two large concerns have come into the field.

Q. They have a number of plants closed now?—A. Yes, unquestionably.

By Mr. Young:

Q. When you say three or four times too many factories it must mean either three or four times the factories that we can find work for, or three or four times the number required to can the crop.—A. I think that is what he means.

By Mr. Sommerville:

Q. The point you are making is the equipment of canning factories is three or four times the requirement?—A. I think that is what their intention is.

Q. Many of those canning factories owned by large canners are actually closed?—A. Yes.

Q. Not operating?—A. Yes.

Q. Not functioning, but their carrying charges are being carried as part of the overhead of those factories?—A. Thrown back on the growers.

Q. These big canners are thrown back on the farmer producer?—A. Yes. I think that is what he is trying to bring out. It is recognized that certain companies are now buying tomatoes on grade and taking delivery of all marketable tomatoes at prices almost on a par with those suggested by the committee representative of the growers as satisfactory. This, in spite of competition with other companies, paying a very much lower price, on a flat rate basis, and a limited delivery clause in the contract.

By Mr. Sommerville:

Q. That is to say, these contracts now are being made to take all the marketable tomatoes?—A. There are some companies operating that way.

Q. There are some companies operating that way?—A. Yes.

Q. And paying prices suggested in your brief?—A. Yes.

Q. In those districts?—A. Yes; and they are still competing with companies that have a limited acreage under bargain in their contract and paying a lower price for tomatoes.

By Mr. Factor:

Q. Why can they do that?—A. I do not know; they are large firms.

Mr. SOMMERVILLE: Lower overhead.

By Mr. Young:

Q. How is a man located in zone 4 where he pays 50 cents a bushel able to compete with a man in zone 1?—A. The fact remains he is doing it. There was a plant in Toronto last year, at least one that I know of, which paid as high as 50 cents a bushel for tomatoes, and yet went out and competed with plants that are buying—

Mr. EDWARDS: The size of the immediate market would have something to do with it?

Mr. YOUNG: Not in canned goods.

Mr. SOMMERVILLE: That is your argument.

The CHAIRMAN: The following paragraph elucidates your point. Proceed.

" Growers contend that the inefficient canner can no longer be carried by the industry.

Some points worth considering in connection with the canning of tomatoes are as follows:—

To just what extent, for instance, does the financial set-up of Canadian Canners Limited enter into the picture? We recommend a study of this structure and the number of dead factories that are being carried at a high appraisal

value. In all price negotiations we are told by Canadian Canners Limited they are losing money, but their annual statement does not support that story. Either they lie to the growers or their shareholders are being successfully kidded. The truth should come out and, at the same time, some of the water boiled out of their stock.

We are told this year that the price of cans has advanced and that is given as one reason for inability to pay more for our products. The position of the pound sterling is the reason for the advance in the price of cans.

We suggest a study of the can monopoly. Some interesting facts would unquestionably be uncovered including a condition whereby every canner must contract for a three years supply with all transactions on a C.O.D. basis."

By Mr. Edwards:

Q. How many factories are there in Canada making cans?—A. I believe it is a one company proposition.

Mr. YOUNG: Two.

The WITNESS: Not more than two.

Mr. SOMMERVILLE: One at Trenton and one at Simcoe.

The WITNESS: The Simcoe plant, I believe, is closed now.

Mr. EDWARDS: Hamilton.

The WITNESS: There is a plant at Hamilton, the American Can Company. I think it is one company, I am not sure.

Mr. YOUNG: Where do they get the tinplate?

The WITNESS: England.

Mr. SOMMERVILLE: Wales.

By Mr. Factor:

Q. Is it not a fact that the price of cans has gone up?—A. Yes.

"The can manufacturer has a three year contract at no set price. Any advance in cost of production he passes on to the canner, who in turn takes it out of the grower.

The grower would welcome the opportunity to make three-year contracts at prices set by themselves. If such arrangements are in order for the maker of cans why not for the individual who produce the product going into the cans?

We are informed that the tin can used for tomatoes costs 3 cents. Compare this with the cent's worth of tomatoes (at present prices) put into the can?"

Mr. SOMMERVILLE: That is to say, there is just one cent's worth of tomatoes put into a can?

The WITNESS: Roughly.

Mr. SOMMERVILLE: At the present prices?

The CHAIRMAN: Growers' prices.

The WITNESS: Yes.

"Dealing with an international tin cartel which is stronger than the entire Canadian canning industry the latter has no option but to submit to any price structure set by the can monopoly. To offset these price fluctuations the practice is to even the balance by reductions in labour costs and in the prices paid for the primary products."

By Mr. Factor:

Q. Is not that the vital problem? Have you not touched on the vital problem when you mention the can problem?—A. We sat in on a conference

recently trying to reach a price for tomatoes with these canning group fellows, and the first thing thrown at us was the price of cans had gone up. That was given as the reason why they could not pay more for tomatoes.

Mr. YOUNG: Is anybody going to give us any evidence in connection with this international tin cartel?

The WITNESS: The farmers are not in a position to give you that evidence, but we expect you to dig it up.

"Home canners claim they can pay 45 cents a bushel for tomatoes and make money? A bushel roughly makes a case or two dozen cans of tomatoes. If home canners can pay that price why not the canner who can pack 500,000 cans a day in one plant?"

By Mr. Sommerville:

Q. That is really the reason for the increase in the number of home canners, is it not?—A. The price paid to the grower?

Q. Yes. In other words, generally speaking, the arrangement made with the home canner is that the vendor, the man who supplies the machinery and who sells the finished product, will guarantee to the home producer 20 cents more per bushel than he gets from the canning company, and the farmer then proceeds with his family to earn the 20 cents more?—A. Correct.

Q. Is not that about the general principle?—A. Yes.

Q. And these products are delivered then to the distributor who sells them in large quantities to the wholesalers or to the chain store organizations, the big buyers. That is the picture?—A. That is the picture.

Q. When the farmer can get 20 cents more per bushel for his tomatoes by canning them at home, there is an inducement to use the labour he has available, his family and his farm labour, to increase the production of tomatoes in that way?—A. Correct.

By Mr. Factor:

Q. How many home canners are there in the province of Ontario?—A. I have not any idea.

Mr. SOMMERVILLE: We will be able to get these figures. There were 4,000 licences issued in the province of Qubec last year, and I understand there were a very large number issued in Ontario as well.

The WITNESS: Canners inform growers it costs 85 cents to produce and sell a dozen cans of tomatoes yet in the same breath they admit they are selling to large buying interests for 70-75 cents and claim they are glad to get the business.

The CHAIRMAN: That is per dozen, isn't it?—A. Per dozen, yes. The company showing a million dollars profit in the year just closed contends it is only this chain store business that moved their 1933 pack. Once again the figures don't jibe. On might ask if it costs them 85 cents to grow and the bulk of the pack move at 70 to 75 cents how do they continue to show a profit. It may be we just can't figure.

By Mr. Sommerville:

Q. The canners in your conference have given you the information to the effect that it cost them 85 cents a dozen to produce?—A. Yes, sir.

Q. And they have admitted at the same time that they sell to the chain store at 70 and 75 cents; that is less than the cost of production?—A. According to their figures, we have no check on it.

Attached are copies of standard contracts now in use. Perusal of these contracts will show their one-sided nature. Under these contracts the canners do not have to take delivery but the growers must deliver. Such little faith is

attached to the contracts that in some districts the growers don't bother signing, knowing they will have to dance to the call of the factory manager in any event.

By Mr. Young:

Q. Can they deliver if they do not sign?—A. Oh yes. They can go into the factory, or the manager can go into the field and say I will take 200 bushels of tomatoes from you at 35 cents, and he can take them down.

Q. You do not sign a contract, yet you can go into the factory with a load of tomatoes and sell them?—A. No, sir, you have got to have a verbal contract; he cannot just drive up to the door and say I have a load of tomatoes here and take them. What I mean is that the growers, especially in the Wellington district that we are dealing with, seldom bother with a contract. Why consider a contract when they will do this anyway?

By Mr. Ilsley:

Q. The bankers attach some value to them?—A. In our district the bank does not, we do not have to have canning contracts.

Mr. Young: You are kind of independent of the banks.

Mr. Ilsley: He means, they are prosperous.

The Witness: The grower is a little better off than the chaps I am talking about. Our district is a different district. These chaps that I have been referring to are not straight gardeners, they are largely what one refers to as dirt farmers—stock and grain farmers, who put in a certain acreage of canning crop products.

By Mr. Ilsley:

Q. The straight gardener deals in all kinds of fruits and vegetables, has quite a variety?—A. He is not in the position that these fellows are, he is a little more independent.

Some years ago some canning companies were in the habit of growing considerable quantity of produce on their own farms. This practice has been much restricted of late, it being cheaper to buy them to grow. Some processors with farms will say they can make money on tomatoes at 25 cents a bushel but these gentlemen shove every tomato they grow through their own plants and don't operate, with their own produce, on the same basis as they deal with the growers. The point is, you are liable to have the canners contend that they grow the tomatoes on their own farms and they are content with 25 cents a bushel for these tomatoes, but we know from past experience that there are no restrictions, they are not very severe with their grading; they shove everything from their farms through.

By the Chairman:

Q. They would have to grade, but there is no restriction on quantity?—A. No restriction at all; that is possibly why a lower price is attractive to them.

By Mr. Young:

Q. What about the product, is it as good as though it had been graded before going into the can?—A. We do not know, that is their business.

Q. They could sell for the same price, could they?—A. I think the question of quality is fast disappearing from the canned goods business since the Chain has been in the picture. That is a personal observation.

In the Kelowna district of British Columbia the offered price this year is \$10 per ton although cost of production is \$15 a ton. The canners will take 6.250 tons in this one district at the price offered which is equivalent to $33\frac{1}{3}$ cents a bushel. The growers are holding out for \$12.50 a ton as a minimum price.

By Mr. Factor:

Q. You said the cost of production is $15, and the growers are content to take a reduction to $12.50?—A. As compared to $10 that is a split in the difference.

Q. They would still be losing?—A. Absolutely. I know it is hard to understand, but it is a cash crop proposition.

Canners tell us they have not cleaned out last year's pack and intimate a big carryover, yet representatives of some companies were active this spring encouraging growers to put in larger acreages.

That is a confounding fact. The canners claim they have a large carryover and yet their agents are encouraging the growers to put in increased acreage.

All this is confusing to the grower who is in the unfortunate position of lacking the necessary information with which to properly negotiate. In this connection we suggest the time has come for the establishment of a federal board of referees—experts empowered to negotiate for the primary producer in order that the price to the canner for the raw product shall be based on costs of production and not on the collective power of the canning industry which continues to build the price structure of canned products from the top down, instead of from the bottom up.

The growers feel, that, in addition to the establishment of some agency with power to set minimum prices based on grades for primary products sold to processors there should be minimum prices for labour in all factories, minimum prices to the trade for the finished product, based on grade; a controlled spread between producer and consumer; and legislation requiring the net weight to be plainly marked on each container in a conspicuous place.

By Mr. Ilsley:

Q. That would mean a higher price to the consumer?—A. True, it might mean a slightly higher price.

Q. Would not your demand fall off to a very marked degree?—A. I doubt it.

By the Chairman:

Q. There is one suggestion there, the net weight being specially marked on each container in a conspicuous place. Have you considered the suggestion that there should be a uniform type of can or container?—A. We would like that in everything, unquestionably. The Chain store is interfering with the standards for containers.

By Mr. Sommerville:

Q. The Chain store you say is causing—?—A. Some are openly wanting a smaller package, smaller container for jam and everything else.

By the Chairman:

Q. Do you think it would be in the interests of the grower if there were uniform standards of size in containers?—A. Unquestionably, it would be.

By Mr. Edwards:

Q. Is that common practice, Mr. Robinson; that they are demanding smaller containers?—A. Yes, sir, absolutely.

By Mr. Senn:

Q. Does not the Trade Marks Act define the size of containers?—A. I believe many of those regulations have been changed.

Mr. SOMMERVILLE: A very large number of sizes are set up in the canned goods, or canned fruits act.

The CHAIRMAN: The canned foods act.

Mr. SOMMERVILLE: The canned foods act; and there are a very large range of variations, and if you comply with the requirements and put your material into any of these standard cans, you are not required to put the weight, or any indication of the weight on it; if you depart from this section, then you must put the net drained weight on it. For instance, we have a can before us now; instead of a 16 ounce can, which was a standard can, here is one of 14½ ounces, an ounce and a half less, but having much the same appearance; that requires to have on it the 14½ ounce weight.

Mr. ILSLEY: Which people do not look at.

Mr. SOMMERVILLE: No. It would be in the interests of the consumer to have the quantity stated on the outside of the can.

The CHAIRMAN: We will have evidence on that later I just wanted to get the view of the grower as to uniformity of size.

By Mr. Heaps:

Q. Mr. Robinson, you referred to the minimum wage act there in your statement just now; do you know anything about wage conditions and labour conditions in the canning factories?—A. Other than the general observations that I believe they are not—I know there has been a little trouble in the past year in some of the factories over labour conditions.

Q. You have no personal knowledge?—A. No, but I could secure it.

Q. I think perhaps that might be of interest?—A. I know definitely that the fair wage officers of Ontario were called to the one plant in my district last summer.

By Mr. Sommerville:

Q. That is, the minimum wage officers?—A. The minimum wage officers.

By Mr. Heaps:

Q. Do you know what the wages offered were?—A. I think it was an average of around 18 cents an hour.

Q. Was that for male or female labour?—A. I could not say, male I think.

By Mr. Sommerville:

Q. The minimum wage officers have nothing to do with men?—A. It was in connection with some of the girls who were employed at that factory.

By Mr. Heaps:

Q. Was about 18 cents an hour the wage offered?—A. I can't tell you.

By Mr. Sommerville:

Q. We will be able to get the wage scale Mr. Heaps.

The CHAIRMAN: All right, Mr. Robinson.

The WITNESS: Such suggestions may be deemed radical by some but are no longer radical to the farmer who is rapidly growing weary of being booted around while canners indulge in price wars, in struggles for control of business; and "knuckle down" to large buying interests and, in at least one case, struggle to show profits on a stock structure that appears false in every detail. Some companies maintain that Canadian Canners Limited in selling tomatoes to the chain stores at 72-75 cents a dozen are doing so in an effort to keep the small independent from operating and to stop others from selling futures at 80 cents or 85 cents per dozen. The latter, if unable to deliver, will, according to the theory, pass out of the picture. Another report is that Canadian Canners

Limited while selling some quantity at this price do not, actually, pass out any real quantity at the price. Many smaller companies need signed orders so that they may finance operations. Canadian Canners Limited are charged with making sales at low prices in the hope that the little fellows will be prevented from securing the needed orders.

I wish that could be developed through the smaller independent companies.

Tomatoes, yielding 20 cans to the bushel and sold at 30 cents represent a cost in the can of $1\frac{1}{2}$ cents. At 40 cents the cost would be 2 cents per can. In other words an increase of ten cents per bushel to the grower, the difference between profit and loss, would mean but one-half cent per can to the consumer. We feel satisfied the consuming public will not object to such a slight increase, especially when it means profitable operation to the farmer. There need be little alarm for the consumer. When the canning companies were battling for supremacy and prior to the creation of a working agreement, peas were selling wholesale as low as 75 cents per dozen and apparently less to chain organizations who were retailing them at 5 cents a can. Now the wholesale price is $1.20 a dozen and there has been no howl by anybody on behalf of the consumer.

You can see how prices are raised through the operations of the canners, and yet nobody says anything about the consumer suffering; but every time the grower fights for a little more somebody cries out, well the consumer has to pay.

By Mr. Ilsley:

Q. The consumer has nobody to represent him, as far as I can see.—A. And the grower we feel—

Q. But still, you have your organizations while the consumer does not.

By Mr. Kennedy (Peace River):

Q. Well, Mr. Robinson, don't you think the producer is entitled to a living anyway?—A. Yes, sir.

Q. I do not see what the consumer has to kick about, do you?—A. You will find, if you go into the consumer's earning power, that he is battling for a living; but so is the grower—has he not a right to battle, too.

Mr. SOMMERVILLE: We are all consumers, aren't we, both the farmers and the rest of us.

By the Chairman:

Q. I take it that the point Mr. Robinson is making in that particular paragraph is that the increase to the purchaser which would make it a profitable business to the farmer would not affect the price more than about one-half cent a can?—A. Correct, sir.

Q. That is the point you wish to emphasize. I think it is one we should bear in mind.

Mr. HEAPS: You might take it up in the cans?

Mr. SOMMERVILLE: Whereas by reason of some manipulation or effort to again control the price brought it up from 75 cents to $1.20 per dozen without any increase to the grower.

Mr. FACTOR: That is the position.

Mr. KENNEDY (*Peace River*): An increase of 4 cents a can.

The WITNESS: And there was no particular complaint.

The CHAIRMAN: All right, Mr. Robinson, go ahead.

The WITNESS: The grower does not find fault with the canning company putting out a can of tomato product at a price of two tins for 25 cents, but he does wonder how a rival company can sell a similar product at 5 tins for the quarter.

I might say that I have information recently from the agent of a company that his company was selling a tomato product at 2 tins for a quarter in competition with a product from a rival company at 5 tins for a quarter, and in spite of the high price their volume of business was much increased over that of the 5 tins for a quarter article.

By the Chairman:

Q. I suppose there was a difference in the size?—A. In both quality and size; he was selling a higher priced article in opposition to a small can.

There is an old saying that it takes a weak mind and a strong back to make a good gardener. Well, the weak mind is functioning enough to ask: How and at who's expense?

With the empty can costing 3 cents, the fellow with the weak mind wonders if the strong back is the answer.

By Mr. Kennedy (Winnipeg):

Q. Now, do you really mean that; or is it just a figure of speech you are using?—A. We do.

Q. You think that a man to get along as a producer should have a strong back and be a man with a weak mind?—A. That is what we say about ourselves; he certainly has to have a strong back.

Q. I do not like to think that is true.

The CHAIRMAN: Let somebody else say it to him, and see if he will say it is all right. All right, Mr. Robinson.

The WITNESS: One deal which possibly demonstrates better than any other the evasive actions of certain barons of the canning industry is the purchase of asparagus in 1933 and again in 1934.

Early in 1933 certain asparagus growers became alarmed with the prospects for disposal of the crop at a price which would meet costs of production. They entered into negotiations with the canners and finally secured an agreement calling for a price of 10 cents per pound for all fresh asparagus purchased for processing. In return the growers were to seek imposition of a special dump duty on imported canned asparagus. Failing application of the duty the canners were to pay 8 cents per pound for their requirements. Accordingly steps were taken to have a value fixed for duty purposes on imported canned asparagus. This was accomplished on May 13 on the understanding that the price of 10 cents would prevail.

By Mr. Sommerville:

Q. Is that May 13th of this year?—A. Last year, 1933.

Some time after the dump duty went into effect it was discovered that only two canning companies were playing the game, purchases being made in some cases at 5 cents per pound. Ability to buy at the fixed price was due to lack of knowledge on the part of some growers of the deal made and the action of some canners in withholding purchases and threatening not to purchase at all.

Mr. FACTOR: A deal made with whom?

The CHAIRMAN: Between the canners and the growers.

The WITNESS: Yes, sir.

Mr. FACTOR: I wanted the witness to answer that, Mr. Chairman.

The CHAIRMAN: I beg your pardon.

By Mr. Factor:

Q. I wanted the witness to answer that; I mean, there is apparently some obligation there. There was a dumping duty put on, and I suppose the idea was that the growers were to get 10 cents per pound, Mr. Robinson?—A. That was the understanding.

Q. That was the understanding, then the dumping duty was applied and the canners did not play the game?—A. They broke faith.

Q. I think it is up to the government to get a refund from the canners to the growers.

By Mr. Young:

Q. In other words, the conditions following that became worse?—A. Yes, and they have done it for a long time.

Undoubtedly the canners broke faith but the growers were in the position that if they sought to have the tariff restrictions lifted they would cause those canners who did keep faith to suffer.

By Mr. Young:

Q. Is that the reason you spoke of them as having weak minds and strong backs?—A. I know one could read more into it than there is.

One of the offending companies was Canadian Canners Limited. At a conference of canners and growers Mr. W. R. Dryman, for Canadian Canners Limited, submitted his company had purchased its needs at 10 cents and would not be in the market for any additional quantity. Documents in our possession prove that Canadian Canners Limited did buy at lower prices and admission by Mr. Dryman that they deliberately went out to average their costs " down in some way " and one reason advanced was that they had to meet competitors' costs.

The correspondence, which we are prepared to submit, definitely proves that the growers were deliberately let down and that some companies never had any intention of keeping faith.

This year the growers again organized to maintain price and two weeks ago were able to negotiate an agreement calling for 10 cents per pound of asparagus six inches in length payment one-half at end of cutting season and one-half one month after end of cutting season. Again the dump duty was imposed, but even though this duty was put on after the agreement was signed and on the distinct understanding that it was to be maintained only as long as the 10 cent price was adhered to, at least one canner is violating the undertaking and, at the moment, Associated Quality Canners are forcing the growers of the Burlington area to deliver $5\frac{1}{2}$ inch " grass " instead of the 6 inch length agreed upon. When the Associated Quality agent contacted the growers the 10 cent price had been agreed upon but negotiations as to length were still going on. The agent informed the growers that the length would be that stipulated by the St. Catharines Committee and Canadian Canners Limited, then in conference.

By Mr. Senn:

Q. Can you say, Mr. Robinson, that the Associated Quality Canners were a party to the agreement?—A. That may be the argument, Mr. Senn. The agreement was set by their conference, what we call the St. Catharines Committee and Canadian Canners, but the understanding was that it was to apply to the trade in general if the dump duty was maintained. Their agent said that the price would be 10 cents and the length would be whatever was agreed upon, yet we have them already violating that agreement three or four days after the dump duty goes on.

J. A. Daball & Son, of St. Catharines, and Culverhouse Canning Company of Vineland Station were the only firms who lived up to the agreement in 1933.

We submit that a representative of the Department of Trade and Commerce should be assigned to the task of investigating the asparagus deal now, and

that the dump duty should be removed without delay if it is found that the agreement is not being lived up to. We submit when some companies are willing to play the game that there should be some way of making the others do the same.

May I submit the observations made by Captain L. F. Burrows, secretary of the Canadian Horticultural Council, after it was well established that we were again being played with:

> The understanding reached at the Hamilton meeting was as clear-cut as one could make it, in fact there certainly was not any misunderstanding on the part of Daball and yet the Canadian Canners and some of the others immediately violated it and what can we do about it.
>
> After reading your report in last week's Financial Post it is quite evident that the Canadian Canners intend to recoup their losses as, although they have to pay more for cans and for sugar, they hope to be able to buy their fruits and vegetables for less—and so help the growers out, a favoured expression of Mr. Drynan. Of course both the manufacturers of cans and the sugar refineries control their supplies, whereas there is absolutely no control of fruit and vegetable supplies and the mere statement on the part of the Canners that they do not intend to pack or that they have a very heavy carryover is sufficient to cause the growers to throw their supplies at the feet of the canners.
>
> My only solution is a board of control which, legally, can control and negotiate wtih the canners as they do in New Zealand, Australia and South Africa.

A few years ago when the consumer bought jam he got a pure product which was so labelled. Jams contained at least 48 per cent to 55 per cent or more of the fruits they were named. Pure granulated sugar was used. A small percentage of apple jelly and glucose was allowed. But the bulk base of the jam was the fruit that was named. High quality fruits are health giving products as well as delicacies and should not be allowed to be adulterated. A lot of the supposed to be high quality jams to-day have not near the amount of high quality fruits in them that the ordinary canned and preserved fruits had a few year ago.

By Mr. Young:

Q. When did this change take place—A. It has been developing, I would say, since the advent of the chain system.

By Mr. Sommerville:

Q. The chain store?—A. Yes, sir.

With the coming of the chain and departmental stores the demand was made on the manufacturer for lower priced jam so that these stores could undersell the small stores. At first many manufacturers shaded their prices to meet this demand and started cutting the price to the grower for his fruit where possible. Then they commenced buying and importing cheap jam pulps grown and put up in cheaper producing countries and in some cases government subsidized products, such as pulp from Tasmania. They used these cheap pulps as a club to the grower to force prices down. Many of them had brands of jam of certain standard of quality of which they were justly proud and refused to cut that quality. They had spent money in advertising getting the public acquainted with the fact that that name meant a regular assured quality product. Some of them started to cut the amount of fruit used substituting pectin and apple products, glucose, etc., using colouring matter and flavouring to conceal the defects. They usually sold this product under another brand. Growers demanded that these adulterated products should be so labelled. This

has been done in a way but in type so small that it is not noticed by the average buyer or even the merchant who sells it, and in a way that if read the significance of it is not understood by the average consumer.

Then they cut the size of the glass containers and soon the continued demands from the big chain buyers to cut still further in the price were followed by further adulterations. The use of sugar was done away with in many cases and the substitution of sugar syrups with lower taxes and costs was adopted.

By Mr. Young:

Q. What is the difference between sugar and sugar syrup?—A. Well, sugar is the raw product and sugar syrup is the preparation.

Q. Is this sugar syrup just sugar dissolved in water?—A. We have a jam man here who will go into the technical details.

By Mr. Sommerville:

Q. That is, instead of using granulated sugar they are using principally sugar syrup?—A. Yes.

Apple pulp instead of manufactured pectin was used. Cull apples, worms, rot and all, instead of selected apples were used for the manufacture of the apple products for adulteration.

By Mr. Kennedy (Peace River):

Q. That is a pretty serious thing?—A. I think that can be borne out in some cases.

By Mr. Factor:

Q. Is not there some law which provides for certain content?—A. It has been changed; the regulations have been revised continually.

By Mr. Heaps:

Q. When were they revised?—A. In the last two years.

By Mr. Factor:

Q. You mean lowering the content?—A. I believe so.

Mr. SOMMERVILLE: These are the general regulations; it might be wise to have them before you at this time. First of all, take strawberries, there are a whole list of them in the Canned Foods Act:—

No. 1A, properly labelled as pure strawberry jam, will contain 55 pounds of strawberries to 62½ pounds of sugar, making 117 pounds boiled down to 100 pounds of jam, with a minimum of 66 per cent water insoluble solids.

Mr. YOUNG: You do not add any water?

Mr. SOMMERVILLE: No. They must be 66 per cent of a solid that is insoluble in water. Now, that is pure jam.

Mr. HEAPS: What is the date of that regulation?

Mr. SOMMERVILLE: Well, that is the Act. February 25, 1930, I understand. Now then, the next is:

No. 1B, 55 pounds of strawberries and 62 pounds of sugar, 117 pounds boiled down to 100 pounds of jam with a minimum of 66 per cent of water insoluble solids, properly labelled Strawberry Jam with colour and—or preservative. That is the second one; it is not called pure. The third is:

No. 2A, 32 pounds of strawberries, 4 pounds of pectin approximately, 65 pounds of sugar, approximately, and 10 pounds of water, a total of 111 pounds boiled down to 100 pounds of jam with a minimum of 66 per cent water insoluble solids, and this jam is properly labelled "Strawberry Jam with added pectin."

Then the next one is:

No. 2B, 32 pounds of strawberries, 15 to 20 pounds of fruit juice and 60 to 64 pounds of sugar, making 107 pounds total boiled down to 100 pounds of jam with a minimum of 66 per cent water insoluble solids, and this jam is properly labelled "Strawberry Jam with added fruit juice."

Then the next is:

No. 3A, 15 pounds of strawberries, 7 pounds of pectin, 65 pounds of sugar, approximately, and 18 to 20 pounds of water, making a total of 105 to 110 pounds boiled to 100 pounds of jam with a minimum of 66 per cent of water insoluble solids, and that is properly labelled "Pectin and Strawberry Jam."

By Mr. Boulanger:

Q. What is pectin?—A. It is an apple preparation, which jellies to jam.

Mr. SOMMERVILLE: It is used with these products to jam and give a jellied condition to the whole product. It is mostly obtained from apples and some citrus fruits; it has that property in fruit which makes it coagulate.

Then the next is:

No. 3B, 15 pounds of strawberries, 30 to 40 pounds of fruit or fruit juice according to jelly value; you will notice that is the lowest standard; there are four other standards starting off with 55 pounds of strawberries but now we are down to, in 3B, 15 pounds of strawberries, 30 to 40 pounds of fruit or fruit juice, according to jelly value, 63 to 65 pounds of sugar, a total of 108 to 120 pounds boiled to 100 pounds of jam with a minimum of 66 per cent water insoluble solids, and this is properly labelled "Apple and Strawberry Jam." There are relatively similar regulations or provisions for all other kinds of jams and canned products.

By Mr. Young:

Q. Where does this 10 per cent come in?—A. The contention of our fruit men is, that there are jams being sold to-day with 10 per cent fruit content. There is a jar with 10 per cent strawberries in it.

By Mr. Factor:

Q. I know, but the point you make is that there is some adulteration about that, but the regulations permit of a mixture, in accordance with the proportions mentioned in the regulation.—A. Quite true, but we are satisfied that some of the public believe that it is all a pure content, a pure article, and they are buying it as such, not buying an adulterated article.

Mr. SOMMERVILLE: You will observe, from what I have just read, that they are allowed 15 pounds of strawberries under No. 3B, in a total that may be 120 pounds in weight, about one-eight.

Mr. YOUNG: No, but you boil the water out of it.

Mr. SOMMERVILLE: 15 pounds of strawberries to 108 to 120 pounds.

The WITNESS: I think our statements will be supported in further evidence. This jar here shows 3·2 ounces, and this jar shows a content of 12 ounces of fruit. That would be a 40 per cent fruit content.

By Mr. Sommerville:

Q. You have the jam man here who will explain or develop that?—A. Yes.

By Mr. Young:

Q. In the old days we used to get 40 per cent?—A. Yes.

Mr. KENNEDY (*Winnipeg*): I think there is quite a bit in what Mr. Robinson points out there. If a man asks for strawberry jam at breakfast,—the average fellow knows nothing about adulteration or the percentage of strawberries in it; he thinks he is getting a good article or the pure product.

By Mr. Senn:

Q. You would advocate, Mr. Robinson, having some of these lower grades of jam, jams of lower fruit content, eliminated?—A. The point we are trying to make as we go on, sir, is that the reduction of fruit content is seriously curtailing the distribution of sale of tender fruits, raw fruits, and that if our jams were put on a proper basis and the law was such that there had to be 35 to 40 per cent fruit content it would help the fruit industry by increasing the sale of raw fruit; that is what we are trying to develop.

By Mr. Kennedy (Winnipeg):

Q. And it would be better for the consumer?—A. Yes, it would be better for the consumer.

By Mr. Factor:

Q. Would it not cost the consumer more?

Mr. Edwards: It certainly should.

Mr. Sommerville: It may cost a little more.

The Witness: Unquestionably a little more.

By Mr. Senn:

Q. Have you any figures to show the additional cost of the raw product, or will that come later?—A. I have some figures, but I think later that when you come to examine the jammer that I have here in connection with this part of the brief you can bring out those points.

By Mr. Heaps:

Q. Who is it that makes those regulations?—A. The Department here at Ottawa.

The Chairman: Agriculture.

The Witness: We contend the public is more or less defrauded. With the reduction in the fruit content of the jam it has curtailed the sale of tender fruits and has thrown more tender fruits on the open market, the fresh fruit market, with a possible increase in glut condition in glut time.

By Mr. Factor:

Q. But the department framed all those amendments.—A. You permitted it.

Q. Parliament did?—A. Yes, parliament did.

Q. And that is the fault you find, that parliament permitted this adulteration?—A. Well, if you want to go that far.

By the Chairman:

Q. I do not think adulteration would be the right word, Mr. Robinson?—A. We are content to say reduction of fruit content.

Q. Because, after all, the other properties that are allowed to enter into a jam called strawberry jam are largely fruit properties which are indicated on the label. Now, I am not arguing in support of it, I am merely making a statement of facts. I understand the point of the growers is, that it would be much better if these jams representing plum, or strawberry or raspberry contained a larger quantity of the actual fruit than is now used.

Mr. Ilsley: It is a question of one producer against another.

The Chairman: I think I have in my office now two bottles of jam sold as strawberry jam but the average purchaser would not know the difference. The lower grade is filled up with simply some pulp. However, we will have some more evidence on that later.

By Mr. Kennedy (Peace River):

Q. What is the food value of the pulp?—A. I cannot tell you.

Mr. SENN: I think it would be wise, Mr. Chairman, to allow Mr. Robinson to proceed.

The WITNESS: May I point out, sir, that I cannot answer these technical points.

The CHAIRMAN: All right, Mr. Robinson.

The WITNESS: The public is more or less defrauded. The use of from $\frac{2}{3}$ to $\frac{3}{4}$ of the quantity of fruit in the same amount of jam has seriously curtailed the growers' largest market. The price of fruit has ben forced down below the cost of production and the growers are tasting the necessity of operating at a loss or go out of the business in which all their life savings are invested.

This has been brought about by the mass buying of the larger stores and chains demanding cheaper products and the desperate competition between manufacturers to compete for this big business. If the manufacturer does not submit his plant stands idle and overhead eats him up while his competitor, who does submit, is at least unloading his stock and saving on his overhead. In years gone by the jammers used to buy their berries or other fruits and rush them into jam with a large labour force. Now they cannot do this as they do not know the quality of jam they will have to manufacture to suit the buyers' price so they put it into fruit pulps or freeze it in cold storage and manufacture it again to order of the price quality demanded by the chain store buyer. This partial manufacture and cold storage, etc., adds to the price spread between the grower and the consumer.

Recently a group of growers made some enquiry into the jam situation. Before they were through they were dumbfounded with the revelations. That apple, turnip,—I have the turnip here, but I am advised it was only in the war years that turnip was used—and even corn products have practically taken the place of delicious Ontario fruit in the jars was pretty well established. One grower checked up a few samples on sale in a chain store. He found 32 ounce jars with but 12-16 strawberries in each container and yet the product was labelled and advertised pure strawberry jam.

By Mr. Young:

Q. When was this, Mr. Robinson?—A. Quite recently.

By Mr. Factor:

Q. I suppose it was labelled in compliance with the regulations?—A. We are finding no fault with that; we are not putting up any argument on that point. This is the direct result of the operation of the big buyer who commands the manufacturer to "send down a sample for so much," in other words, the jam is made to the buyers' specifications. Gone are the days when a manufacturer can put up quality brands and sell on the quality basis.

Our information is that one-tenth of 1 per cent of benzoate of soda will preserve anything for two months. The use of benzoate of soda is prohibited in Britain. Some processors of tomato products in Canada carry on their cans the words, "no benzoate of soda used." This chemical is injurious and is not necessary in any pure fruit product.

By Mr. Factor:

Q. The regulations permit that?—A. Quite true.

It is no idle statement to say that there is no fresh-fruit going into Canadian jam to-day. It takes 30 per cent fruit to make a palatable jam. Cost of packing strawberry jam with 30 per cent fruit content has been set up as follows:—

COST OF PACKING STRAWBERRY JAM, 32 OZ. GLASS, 1933

Cost of berries—(2,743 boxes at 8 cents)	$ 219 44
Labour, girls	21 27
Labour, men	32 45
Labour, pieceworkers—2,743 boxes	27 43
Cost of jars—(3,883 at 4.70 gross)	126 74
Cost of cartons—(324 at 107.15 M)	34 72
Cost of labelling—324 cases	15 00
Cost of labels—(3,883 at 1.30 M)	5 48
Cost of sugar—(53 bags at 6.61 each)	350 33
Cost of pectin—(5¼ cents at 7.90 each)	41 48
Cost of coal—(2 tons at 6.50 each)	13 00
Freight on pectin	2 00
Tops for jars—(3,883 at 8.70 M)	33 78
Overhead—324 doz. at 20 cents doz., taxes, insurance, electricity, rent, repairs, depreciation, etc.	64 80
Total	$ 987 92

Cost of packing 1 jar—987·92/3883	25·44 cents
Sales tax absorbed 6 per cent	1·68 cents
Freight absorbed—Average 25 cents cwt.	0·854 cents
Total cost per jar	27·974 cents

By Mr. Sommerville:

Q. That is for?—A. For a 30 per cent fruit jam.

Q. That includes the berries, the labour, the container, the carton, and the fruit and overhead?—A. Everything. These figures are reliable. It was ascertained that the jam, in this case, was sold for 28 cents a jar, delivered, tax paid. It is generally admitted that 30 to 35 per cent should be the minimum fruit content, but in spite of this jams are on sale to-day with fruit content as low as 10 per cent.

One jammer has admitted that he is now using 900 crates of strawberries with which to put up the pack that formerly took 4,000 crates. With the change in methods and lowering of quality there has developed the frozen pulp racket, wherein jams are semi-processed and made up as required.

By Mr. Sommerville:

Q. What do you mean by that? I suppose the jam man can explain that? —A. It is frozen and held over until they are ready to finish up.

By Mr. Ilsley:

Q. Why the word "racket"?—A. Perhaps I will withdraw that.

Q. I know, but you say it is a racket. What have you in your mind?—A. It has reached that stage, has it not, where anything is a racket if the crown believe they are being imposed upon.

Q. If they are imposed upon.

Mr. Young: Is not this what they do? They cannot can all the berries the day they get them so they mix them with sugar and put them in barrels and freeze them until they are ready to can them and then they can them?

The Witness: They can them according to the order they get from the chain later on.

Mr. Young: I cannot see any racket in it.

The Witness: Well, I will withdraw the word "racket".

By Mr. Sommerville:

Q. What you have in mind is that under the old process they were canned according to a certain quality of canned goods put up by the manufacturers; now they are held over until they are required by some big buyer who sets the price, and then they are mixed and made to a quality to suit the price.

Mr. YOUNG: That is not the statement here.

The ACTING CHAIRMAN: What would you substitute for "racket"?

The WITNESS: Game.

Mr. EDWARDS: I think racket is a good word myself.

Mr. YOUNG: Frozen fruit business.

The ACTING CHAIRMAN: There is no objection to "racket" provided it is proven.

By Mr. Ilsley:

Q. We are on the scent for rackets. If this is one tell us about it?—A. Don't you think it is a racket where a jam is adulterated down to such a fine point that it has seriously curtailed the sale of the raw products in this country? And it is done because of a large buying power influence. Is not there an element of racket in it?

Q. The manufacturer is telling the truth about his product, is he not?—A. We are not finding fault with the manufacturer; we are talking about the chap who forces the manufacturer to do business.

By Mr. Sommerville:

Q. Do you refer to the chain stores buying stuff under specification for so much money?—A. Yes.

Q. And the people believe they are getting something else?—A. Yes.

Q. If that is not a racket I do not know one.—A. Yes.

By Mr. Kennedy (Peace River):

Q. Is that in accordance with the regulations?—A. I do not know whether you call this a racket or not. Our secretary, I think it was yesterday, followed an ad in a departmental store in Toronto selling strawberry jam for 25 cents, "Today's special 25 cents". That is the ad. He went into the store and he picked out the jam, and on the back of the jar was a label saying, "Today's special 25 cents, Eatonia strawberry jam, specially packed with higher fruit content than regulations require." When he paid for it he was charged 34 cents, and he drew attention to "Today's special 25 cents". He was told he had picked it off the wrong shelf. I do not know whether you call that a racket or good business. That is good business.

Mr. ILSLEY: That is not what you are complaining of.

The WITNESS: It is part of it. I have withdrawn the word "racket". I may be able to work it in later.

Mr. YOUNG: If there is any racket in connection with this it is in the shape of the bottle; it looks bigger than it is.

The WITNESS: The master mind in the chain store business has all these things figured out. "This permits of complete adulterations as it minimizes the dangers of spoilage through reduction of the period between final processing and consumption. Inasmuch as low quality jams made to the order of chain stores are usually sold in a comparatively short time because of advertising ballyhoo the margin of safety is invariably ample.

Unquestionably this development in the manufacture of jam has been one of the chief factors in the gluts of fruits. Before the advent of the gentlemen of the chain stores jam was invariably put up in glass jars holding three pounds. Bearing down in customary fashion the mass buyer has forced a steady reduction to the 32 oz. or 2 lb. jar of to-day, a jar which we believe in many cases, is incapable of holding 2 pounds."

By Mr. Ilsley:

Q. You put in "we believe". Have you any ground for that belief?—A. Yes. I think we can support it before we are through. We have witnesses coming on that will bear out the brief.

Q. That is fraud, of course, is it not, to advertise a 2-pound jar that does not hold 2 pounds? Does that take place?—A. Our contention is that it does.

Q. It seems to me, before you make statements like that you ought to check that over very carefully.

Mr. YOUNG: That could be easily proven; take an empty jar and weigh it.

The WITNESS: This brief is supported by makers of jam and growers of fruit, and the information contained is received from them. If, in the evidence submitted in support of the brief, these things are not substantiated, it is up to us to substantiate them and we accept the responsibility. The information is submitted to me and my job is to put it together and submit it.

Mr. SOMMERVILLE: And the other witnesses are here.

The WITNESS: "Three years ago one Ontario manufacturer was supplying one customer with 90,000 lbs. of jam of which 30,000 lbs. were pure fruit, in other words it took 30,000 boxes of strawberries to produce the jam for this order. This business has been lost to another processor who was prepared to adulterate to order.

About the only natural product the grower makes and sells to the trade is maple syrup and sugar. On this he is not allowed to put the word or letters "maple" in any shape or form unless the syrup or sugar is absolutely pure. The grower is not allowed to ship a covered package of fruit or vegetables unless it is marked and stamped and the Government tells him exactly what size, quality and quantity of fruit or vegetables he is to put in that package, and makes him stamp it, and the Government supplies numerous inspectors to see that he does so. The manufacturer, on the other hand, is allowed to use the growers' product and use the word strawberry, raspberry, plums, etc. in the largest type and adulterated down to 10% fruit, if he pleases." I may be wrong in that 10 per cent; it may be 15. Why should the manufacturer of fruit products not have to put his full formula on the label the same as a patent medicine with the exact content of each constituent used in the manufacture exactly as stated?

Mr. SOMMERVILLE: At the present time I have a label before me. We have what is required in the jam. That complies with the regulations as 15 per cent of fruit content as, say, plum jam with other fruit juices, contains colour and corn syrup; or in another case of 15 per cent fruit it may be apple or apple and plum.

Mr. YOUNG: That goes on a 4-pound tin, and that appears on the store keeper's shelf alongside of another tin that says "pure jam" and the prices are adjusted accordingly, and for pure jam you pay more than for the other, and the buyer is given his choice and buys what he wants.

Mr. ILSLEY: There is nothing misleading about that lebel. "Plum" is not in large letters on it; it is fruit jam.

Mr. FACTOR: Here is a case of raspberry jam in large letters, and in small letters are added the words "pectin and colour". Is not that the point?

Mr. SOMMERVILLE: We will have all these jars submitted as exhibits and dealt with at the time they are submitted in evidence.

"If his jam does not contain the full 48% to 55% fruit of former years he should, if allowed to manufacture such a product at all, at least be forced to use the word "compound jam" or some such similar designation in the largest type on the label followed by the percentage of each product used, the names of the fruit used to be in no larger type than the remainder of the formula. In no case should he be allowed to manufacture jam with less than 30% of the named fruit.

We submit that these practices of the buyers and manufacturers with unfair competition and quality reductions have caused heavy losses to the growers, decreased buying power on the growers part, increased farm mortgages, and

increased high interest bank indebtedness. In many cases complete insolvency has resulted and the loss of life's savings to suit the whim of the big buyer of the chain and departmental stores for cheaper products in order that he might crush his competitor. We further submit that farm labor has been forced down by these methods in many cases to one dollar per day and even less for a married man for only part of a year's employment with subsequent increase in relief and thereby increase of taxes."

The ACTING CHAIRMAN (Mr. Kennedy (Winnipeg)): I would like to make one observation. You suggest that where the fruit content is reduced below 48 per cent there should be a provision for some marking on it—a heading "compound jam" instead of fruit?

The WITNESS: Yes, instead of "strawberry" it should be "compound" jam.

Mr. SENN: Did he not go further and say they should not be adulterated any more than maple syrup?

The WITNESS: No, I did not go that far. I pointed out that maple syrup could only be sold with the designation "pure". I claim you should not allow jam with less than 30 per cent fruit content.

The ACTING CHAIRMAN: To be sold by the name of fruit.

The WITNESS: If sold with less than that it should be called "compound jam". If it has 30 per cent or higher fruit content it should be called "strawberry" or "peach" jam, or whatever it is.

Mr. SOMMERVILLE: And the quantity content of each fruit should be on the label?

The WITNESS: Yes.

Mr. SENN: I asked you a question a moment ago about doing away with some of these lower grades that are provided by the regulation, and I understood you to say it would be in the interest of the grower to do so?

The WITNESS: It would, because it would tend to increase the use of fresh fruit, tender fruit in the jam; therefore, it would help the grower.

The committee adjourned to meet at 3.30 P.M.

AFTERNOON SITTING

The committee resumed at 3.30 P.M.

The WITNESS: We finished our brief on the canning and jam manufacturing, but there is one observation I should like to make, and that is unquestionably in rebuttal the contention will be advanced as regards asparagus, that if it were not for the purchasing of the canners at the present time, the grower would be in a sorry position with regard to the disposal of his asparagus crop. That is quite true. The real reason for it goes back a number of years, and it must be established that the large increase in the acreage of asparagus during the past four or five years has been due to the development of the Canadian canned asparagus business. Previous to the development of the canned asparagus industry, there was not anything like the present acreage of asparagus in the country. I say this so that you will keep it in mind.

By Mr. Sommerville:

Q. You have endeavoured to meet the demand of the canners for asparagus? —A. Yes, and in doing so the acreage has developed to such an extent that now, without the purchases by the canner, there is no doubt but what the grower would be in rather an awkward position.

By Mr. Edwards:

Q. Has the canner increased the acreage?—A. No, I do not say they have deliberately gone out and encouraged acreage, but the fact has been, anyway, that a demand has developed over quite a number of years and that has automatically produced an increased acreage. Without the canners' support the price of asparagus would naturally be—it would be just too bad.

"Running through the story of manufacture and distribution of canned fruits and vegetables is the shadow of mass buying as inaugurated and developed by the chain and department stores. All growers contend that this buying system is one of the worst threats now confronting the primary producer.

" is a factor in the canning situation and an equally important one in the sale and distribution of fresh fruit and vegetables. One well-known chain (A. & P.) operates on a system which must be regarded as the most efficient of all. This company buys from the farmers and pays itself a purchasing commission of 7 per cent. If this practice became general the contribution by the growers would carry all the purchasing departments of all the huge retailing enterprises for A. & P. officials have been known to boast of the fact that the 7 per cent purchasing commission does maintain their purchasing department."

By Mr. Kennedy (Peace River):

Q. What does that mean? There seems to be something missing there?—A. They come to a grower and they buy a load of cabbage, say, as happened in our district last spring. The growers sold them the cabbage in good faith, but when they received their cheque at the end of the week, there was a 7 per cent reduction, which we have explained.

Q. "—that the 7 per cent purchasing commission does maintain their purchasing department." To just what part of it does that belong?—A. Fruit and vegetables. We are dealing with fruit and vegetables.

The CHAIRMAN: You are dealing now with fresh fruit and vegetables?

By Mr. Kennedy (Peace River):

Q. That sentence is confusing, "That the 7 per cent purchasing commission does maintain their purchasing department."—A. I mean if they all undertook to operate on the same basis. If one is able to get away with it, there is no doubt the others may in time.

By Mr. Young:

Q. Do you say that they bought a load of cabbage at a certain price and did not pay him the price?—A. Yes.

The CHAIRMAN: Would you make that clear? Mr. Young's question and your answer, I think, makes it a little difficult.

The WITNESS: One specific case which happened in a district that had to do with cabbage is this: Last spring a buyer for the A and P. came into the district and he bought two loads of cabbage. The cabbage was delivered to the A. and P. warehouse in Toronto, and when the cheques were received from the A. and P. a week later, there was a 7 per cent reduction which was stated to be purchasing commission.

By Mr. Young:

Q. Did the farmer accept those cheques?—A. Yes, they had to in those two particular cases. They accepted the cheques, but refused to sell any more to A. and P.; but it is a common practice.

Mr. FACTOR: Was the price fixed at the time of purchase?

The WITNESS: Yes, $1.25 a case.

Mr. SOMMERVILLE: They buy all fruit and vegetables from the Atlantic and Pacific Commission Company.

Mr. YOUNG: He tells us a buyer for this company went and bought the cabbage from the farmer at a certain price.

The WITNESS: Sure.

Mr. YOUNG: And sent them a cheque for a different price?

The WITNESS: Yes, sir.

Mr. EDWARDS: They deducted commission?

The WITNESS: Deducted 7 per cent.

Mr. YOUNG: They were buying; they were not commission men for the farmers?

Mr. FACTOR: Were the farmers notified?

The WITNESS: These two farmers were not aware of the fact there was such a charge, because it was their first deal with A. and P.

By Mr. Young:

Q. Was there an agreement signed?—A. No, sir, there are very few agreements in those kind of things; all verbal deals.

Q. I do not see how they can get away with it— —A. Well—

Mr. SOMMERVILLE: We will have evidence from the auditors with reference to the commission company in that particular instance who does this buying and takes commission on purchases.

By the Chairman:

Q. Your object is to record the criticism of and objection to that practice?—A. Yes, sir.

Q. You say it is commonly done?—A. By this one firm.

"The bitterest complaints we receive from the growers have to do with the chain system practice of using fresh fruit and vegetables as leaders. Unquestionably the offering of fruits and vegetables at leader prices for the purpose of enticing consumers into stores has a detrimental effect on the market price of the article so advertised. The contention is that primary products, especially those of a perishable nature, should not be used to further the sale of other products that are priced on a highly profitable level. Then every time rival chains indulge in a little price-cutting war they automatically force down the price of the products at the expense of the producers. Repeatedly fruits and vegetables are sold at a loss so that the chains can, in their advertising and window displays, establish attractive leaders. The results of this practice are far reaching. Most of our fresh fruits and vegetables are sold through the medium of wholesale commission houses and trucker-buyers. Repeatedly the prices they establish are based on the advertising of the chain stores. A trucker dickers with a farmer for a load of produce. The farmer is holding out but, invariably, when a daily paper is produced carrying a chain store advertisement in which the said produce is offered at a price much below that demanded by the grower, the argument is over. To illustrate the point may I relate a deal in which I was an innocent participant. Last year, just as we were about to dig early potatoes I entered into a contract to sell a chain store company 5,000 baskets of potatoes at 30 cents each, delivery spread over the week. The chain, in turn, advertised and sold the potatoes for 35 cents, a spread which was certainly not out of the way. By the end of the week the chain sought to make further purchases at the same price but I refused to sell because we were enjoying a rare thing—a rising market. This was on Friday. The chain buyer then moved fast in an effort to round up enough potatoes to meet

the anticipated demand of Saturday, having in mind his advertised price of 35 cents. By Saturday the wholesale price had jumped to 40 cents but the chain buyer went into the open market at Hamilton and bought hundreds of baskets at the 40 cent price, rushing them to his stores for sale at 35 cents. Late in the day he woke up to a realization that the heavy sales in the stores were not due to consumer buying but rather to purchases, in quantity, by truckers and pedlars, who had discovered that the chain store in question was at least 5 cents per basket under the market.

Only the other day the buyer of a Toronto department store communicated with the Secretary of the Ontario Growers' Markets Council. He desired information as to where he could pick up a quantity of shallot onions. 'You are out of luck, there aren't any in the province,' our secretary replied. 'But I've got to get some,' the buyer answered. 'I've advertised them for sale tomorrow'.

From each case the lesson is on of advertising and its adverse effects. The advertiser was really conducting a ballyhoo on something he didn't have and certainly there was never at any time true knowledge of market or price conditions. The advertising system employed does much to prevent growers enjoying any possible advantages of normal price fluctuations due to weather conditions or other factors. Once the chain has established a price for any one of the many fruits or vegetables it refuses to change to higher levels even though crop conditions warrant a rising market. There is no doubt but the inability, in recent years, to move up prices after a glut low, is due to the chain store system of merchandising. There may be some advantage to the consumer but it is very questionable if the slight advantage thus gained by the consumer makes up for the loss to the farmer and the inevitable reduction of his purchasing power.

Recently the Toronto wholesale jobbing trade was endeavouring to reorganize their credit system. With one exception all the Chain Stores concurred in the request of the wholesale jobber trade for weekly payments for all produce purchased from them. The one exception, however, was quite indignant that they should be asked to pay cash weekly for their purchases, even though all transactions through their outlets are on a strictly cash basis. They even said that while they were now receiving thirty days' credit, they intended to ask for a longer period. Under the present system, they were able to make on interest around $2,400 per year on the fruit trade. They felt this was not sufficient and that they were entitled to more. However, if the jobbers would agree to give them a liberal cash discount, they would fall in line on the weekly payments."

Mr. Kennedy (*Winnipeg*): What do you mean by being able to make $2,400 interest on their deposits?

The Witness: On the use of the money.

Mr. Kennedy (*Peace River*): They get cash for sales.

The Chairman: They have a 30 day use of the money and they sell for cash.

The Witness: The point I am trying to make is these commission houses are handling purchases on a commission basis of 12½ per cent, and naturally with the great difficulties they have in collections the tendency is for it to rebound on us.

The Chairman: They demand a wider margin.

The Witness: Yes.

"Another instance—of interest to producers especially—concerns one of our vegetable growers near Toronto who had been selling produce from day to day to a chain organization, possibly the same one I have just referred to. On

this particular day the chain organization called the grower by long distance 'phone, reversing the charge to the grower's account and ordered fifty hampers of cauliflower at 45 cents per hamper, to be delivered to four or six stores that day between three and four o'clock. At eleven o'clock the grower received another call, the charge being reversed to him as before, and was told the cauliflower must be delivered before two o'clock. The grower had sent his truck into Toronto on other business and did not expect it back in time for the earlier delivery as now requested. This, however, did not have any effect on the buyer, who told him the cauliflower must be there at two o'clock or else the order would be cancelled. The grower had the cauliflower already packed and crated and had to hire a truck to make the trip at a cost of $3. The next morning, still expecting his 45 cents per dozen, another call with charges reversed as heretofore, came through advising that the market had dropped and they were only able to pay 35 cents per dozen."

Mr. KENNEDY (*Winnipeg*): Is there any reason, Mr. Chairman, when an allegation like that is made, why we should not be given the name?

The WITNESS: I can secure it.

By Mr. Kennedy (Winnipeg):

Q. Will you give it to the committee in confidence. I may say we have had some reluctance in getting certain growers to appear here.

Q. That is a definite allegation?—A. We will be glad to give it in confidence. The grower, I think, will be prepared to come forward.

Q. That is a definite allegation against a certain organization.

The CHAIRMAN: Give both the grower and the buyer.

By Mr. Ilsley:

Q. There was only 35 cents paid?—A. Yes.

Q. The other ten cents is still due?—A. Well, I think the grower would like to think it is still due.

Q. It is, if what you state there is true?—A. Yes.

Mr. KENNEDY (*Winnipeg*): You mean he will always have it coming to him?

The WITNESS: Always.

By Mr. Ilsley:

Q. In other words, he will do no more business unless he accepts the terms?—A. They won't deal with him. One of the leading vegetable growers of Ontario has had long experience with the chains. He finds they are not interested in handling fresh produce at the beginning of a season when supplies are limited. Neither are they interested in quality products. He says—I quote from this grower. Incidentally, he asked not to be called, although he is quite prepared to give anything in confidence. He makes no special charges.

Mr. FACTOR: Why is he afraid of being called?

The WITNESS: He states the moment he is called to appear before this committee, he would lose the business.

Mr. YOUNG: It is not much value to him, is it?

The WITNESS: Yes it is, those days.

Mr. SOMMERVILLE: Anything is of value in the way of purchases.

The WITNESS: It is not in the days when a grower can pick and choose, but he has got to take a lot of this stuff and like it.

"Our experience with the chains is that they quite effectively block the distribution of Canadian produce as it comes on the market. They will not

handle any line until it is well established. Frequently their buyer claims the price is too high and he will wait until it becomes cheaper. At the same time other stores in the same localities are getting a good sale at a reasonable profit. Their contention is that a large profit at the beginning of the season retards the legitimate sale, although it was not so before the advent of the chain system. At all times they seek to force down prices. They will not trust their store managers to buy anything even if he knows there is a real demand for it. They demand a daily delivery but their system does not permit of readily fluctuating prices and they are not in a position to assist in a downward or upward revision of prices should weather conditions demand it of perishable products."

Now, you may inquire, gentlemen, why we are interested in a downward revision of prices. Well, there are times when the market warants a downward revision because of say a glut condition, and if the downward revision were made promptly, it would help to make purchases and clear up that glut condition.

Mr. Young: We are interested in knowing why they are not interested in a downward revision.

The Witness: I think it is their system. The majority, as I understand it, advertise on a three day basis, and they try to maintain a standard price for the duration of the advertising period.

Mr. Sommerville: The next sentence helps.

The Witness: "They frequently set a price on Wednesday for a balance of the week and that selling price will be maintained regardless of any natural change in the wholesale price. If the wholesale price advances and their supply is limited or even if they are sold out their price holds to the detriment of the farmer in his sales to other people. If the wholesale price drops their stores simply do not get distribution and at this time they are of no assistance in extending distribution. Each chain has one buyer for a city and if his guess as to what a price should be is wrong, it is the growers who suffer as with a price too high distribution is again blocked. On the other hand their losses are restricted as they only buy one day's requirements at a time even though their advertising may be set for three days. They will not handle the best quality of such lines as cauliflower as they want one price in all stores in the same district. Individual store managers know better than a general purchasing agent what they can sell with a change in price but the producer cannot deal with and must wait while the system gets under way. This very often results in a hold up for a full day on goods which should be moving. It has the effect of checking distribution to the grower's loss.

Of recent years another evil has crept into the picture to the detriment of distribution. We refer to the chain wholesaler who is either a subsidiary of a chain company or is a wholesaler with a working agreement with a chain store group. Some of them are:—

Atlantic Commission Company, subsidiary of the Atlantic & Pacific Tea Company;

National Grocers Limited, catering to Red & White Stores in Ontario;

Western Grocers Limited, looking after Red & White in Western Canada.

There are others including Canada Packers Limited, who have been intruding on the fruit and vegetable business, apparently for the purpose of furthering the sale of fertilizers, which is one of their principal by-products. It is not uncommon for Canada Packer agents to approach heads of co-operatives, as well as large producers and offer to handle certain lines of produce providing the co-operative or association will undertake to purchase their fertilizers from them. This club has been used on onion, potato and grape

growers principally but may be extended to other products. One particular shipment of grapes was handled by Canada Packers Limited last fall for $12 a car. This automatically depressed the market in the area into which the shipment was made to such an extent that many days elapsed before the trade could resume business."

You see, there are 1,200 baskets of grapes in a car, and they handle it on the basis of one cent a basket.

By Mr. Sommerville:

Q. What do you mean by that reference, Mr. Robinson?—A. Their spread is not a basic commission.

The CHAIRMAN: Or handling charge.

The WITNESS: The handling charge was too low compared to the handling charges of the legitimate trade, and they were able to place the article in this market at a price which the legitimate trade could not meet.

By Mr. Senn:

Q. Do you know whether the producer received the usual price?—A. The producer received the current price for his grapes. I think it was around 17 cents on this particular deal. There was nothing wrong with that. But they shoved this one car at this low handling charge, out of all reason; and they shoved the car into a good area, and they were able to put it into that area below the price of the legitimate trade; and it had the effect of blocking further sales for a time in that area.

By Mr. Factor:

Q. What is the usual handling charge?—A. It varies. I think they figure that 3 cents is a fair charge.

By Mr. Kennedy (Peace River):

Q. Was this just an isolated deal?—A. I think what we are trying to bring out with these people is that they are shoving the business. Generally they step into an area and they do dispose of some of our goods, but it is an effort to shove along their fertilizer business.

By Mr. Sommerville:

Q. That you say is the result of an arrangement made when the grower buys the fertilizer, that they will handle his products?—A. The grower on this particular deal did not suffer, but the other growers did suffer in the succeeding two or three days.

By Mr. Kennedy (Winnipeg):

Q. How did their low handling charge put them in a preferred competitive position?—A. They would be 2 cents under a regular shipment which has a 3 cent handling charge.

Q. Would they not charge less?—A. Yes, they would; two cents less.

By Mr. Sommerville:

Q. Sell for less to the dealer?—A. Yes.

By Mr. Senn:

Q. And I suppose if that particular producer had more grades to sell he would suffer as well?—A. Yes. Although he would not recognize it at the time.

"Others of the chain wholesalers have adopted the policy of securing their supplies through employees or buying brokers who purchase direct from the growers on a salary of per package basis, the wholesaler absorbing the normal spread between producer and retailer, only to such an extent as will enable them to sell under the independent wholesaler. This tends to eliminate fair competition and has a restrictive influence on distribution.

Stability of markets, once enjoyed and always the desire of any grower, is a thing of the past because of the combined practices of these two groups. They ignore the old law of supply and demand, and instead of the growers' reaping the benefit their labours and investments entitle them to, they are fast becoming serfs of these business combinations and will continue to be tied hand and foot unless some regulating influences are brought to bear. Possibly the Natural Products Marketing Act will be the much-sought answer. The prayer of the growers is that it will be.

Confronted with steadily decreasing prices fruit growers and gardeners have been forced to give serious thought to the question of costs of production. Following the practice common to the big business executives they have been successful in reducing some of the items such as labour, which always suffers first, but in other matters have encountered conditions which show an amazing attitude on the part of allied industries to exact the maximum even though they are slowly squeezing the last penny out of the people who are the foundation of their entire business operations. It matters not to these gentry that farm labour is to-day being paid as low as $1 a day on farms where the rate three years ago was $2.50 and $3 a day. Even the fines levied on the basket manufacturers for violation of the Combines Act failed to serve as a warning, in fact, some of these allied industries have, if anything, become bolder and more ruthless. Many of them could be safely investigated but in the hope that examination of the practices of the fertilizer companies will have a salutory effect we are content, at the moment, to bring before you a condition of affairs which we believe is intolerable. We charge that certain fertilizer manufacturers are party to a price fixing structure which has for its purpose the maintenance of prices that permit of an exorbitant margin of profit as far as the gardeners and fruit growers of that section of Ontario west of a line drawn from Kingston to Pembroke are concerned. No section of agriculture is as vitally interested in fertilizer costs as gardenering and fruit growing. Because of modern methods of intensive culture, producing two and three crops to the given acre in the season, the gardener is perhaps the heaviest purchaser of fertilizers, hence his vital interest in the subject."

By Mr. Factor:

Q. Mr. Robinson, you allege a price-fixing combine; why do you not take proceedings under the Combines Act?—A. We may have to.

Q. Is not that the mode of procedure open to you. I mean, that there is a direct allegation that there is a combine with a price-fixing objective; the Combines Act provides a remedy for that?—A. If your suggestion is that that is the way we should proceed I imagine we would do that.

By Mr. Young:

Q. You said something about the price of baskets; did you ever try to buy a basket from the United States, and did not the customs instruct you that you had to pay a higher price for those baskets?—A. Not to my knowledge.

Q. Have none of your growers had that experience?—A. Not that I know of personally.

Q. I thought it was rather common knowledge.

"It is common knowledge that there has been a vast improvement in the manufacture of fertilizers in recent years. This improvement has made it safe for the farmer to mix his own fertilizer combination, buying the ingredients direct and eliminating the high toll demanded by the companies manufacturing the prepared mixtures. Home mixing is a money saver and the practice has shown signs of rapid extension. To stop it and to protect investments in plants which are fast becoming a heavy burden to the farmers, the companies have reached an understanding which has for its objective the stamping out of home mixing and discouragement of the establishment of cheap but satisfactory co-operative mixing plants by groups of growers. The method of tackling this problem has been to make it as difficult as possible for the grower to buy his materials. True, he can secure the materials but only through controlled channels in which the price is rigidly maintained at a figure which tends to discourage the practice.

This price structure is maintained by an organization known as the Eastern Canada Fertilizer Association of which A. L. Smith is president and Alex Mooney, secretary. They, undoubtedly, are in a position to supply the committee with some illuminating information and we suggest they be asked for the following:—

1. Costs on which they base consumers' prices showing cost to the manufacturers per unit of mixture—nitrogen, phosphoric acid and potash.
2. Factory cost of mixing plus bags, per ton.
3. Factory cost per ton ready for shipment of, say, the following mixtures:
   2—12— 6
   4— 8—10
   2— 8— 6

4. Cost of selling, interest on investment, depreciation allowances, etc.
5. Dealers' prices, dealers' profits, consumers' prices less discounts compared with factory costs.
6. Investment in plants for manufacture of fertilizers, exclusive of superphosphates.

We have reason to believe the farmers, in respect to this last item, are being asked to carry investments, which, in the light of modern knowledge of fertilizers, are no longer economically sound.

By Mr. Sommerville:

Q. Before you go any further with that I would like to ask you a question in regard to the difficulty which you say you experience in buying fertilizers separately so you can mix them; that practice or condition does not obtain in the Maritime Provinces, does it?—A. No, sir. It does not obtain in the Maritimes or Quebec, they buy their fertilizers much cheaper in the Maritimes than we do in Ontario.

Q. And it does not obtain in Ontario east of Kingston?—A. No, sir.

"One of the illuminating features in this fertilizer business is the deal as it applies to that triangle of Ontario within the points Kingston, Ottawa, Montreal and to all Quebec. In the latter province and that part of Ontario east of the Kingston-Pembroke line fertilizers can be purchased at an average of $11 per ton less than in what we will term western Ontario. Here are some of the cash prices:"

By Mr. Sommerville:

Q. You are now going to give us the comparative prices on mixed fertilizers between Ontario and—?—A. The eastern counties.

Q. The eastern counties of Ontario and Quebec?—A. Yes, sir.

Q. And the Quebec price that you give applies not only to the Province of Quebec, but to that part of the Province of Ontario east of a line drawn from Kingston to Pembroke?—A. Yes.

"Mixed fertilizers—	Ontario	Quebec	Difference
2—12— 6..	34.65	25.00	9.35
2—12—10..	37.45	29.00	8.45
4—12—10..	41.10	28.00	13.10
6— 8—10..	46.65	31.50	15.15
9— 5— 7..	48.64	30.50	18.15
5— 8— 7..	40.40	29.50	10.90"

By Mr. Factor:

Q. What are these secret figures which you were giving us, does that indicate the mixture?—A. That is the mixture.

"The combine will argue that the Quebec prices are due to the buying capacity of the Co-operative Federée de Quebec which purchases for over one hundred co-operative locals but the answer to that is the eastern Ontario does not come under the Quebec Federée and yet the Quebec prices prevail in the eastern counties of Ontario.

Proof of an agreement and of the existence of the Kingston-Pembroke line is found in the experience of a growers' association in Northumberland county. Early this year the secretary of the association contacted a Quebec manufacturer and after correspondence forwarded an order on the following price basis:—

2—12— 6..	27.00
4— 8—10..	30.00
6— 8—10..	32.00

Shortly after the order had been mailed word was received from the manufacturer that he was forced to refuse the order because Brighton was west of Kingston."

By the Chairman:

Q. You could almost buy that in Eastern Ontario and ship it in yourself, could you not?—A. No, sir.

Q. Why not?—A. They won't let you.

Mr. SOMMERVILLE: He is giving us an example here.

By Mr. Senn:

Q. Do you mean to say that you cannot buy the ingredients separately and bring them in and mix them yourself?—A. You might, through indirect channels.

By Mr. Kennedy (Winnipeg):

Q. But not if you disclosed what you wanted to do?—A. I think you would have difficulty. I think we can prove that.

By Mr. Senn:

Q. Do all these mixtures come from the United States?—A. No, sir. They are made in Western Ontario. Some of the ingredients may come from the United States, and in some cases you would have trouble buying from the States.

By Mr. Young:

Q. Could you not bring in the finished article from the United States?—A. I do not think it would be desirable.

Q. Why?—A. Freight and duty.

Q. What is the duty?—A. I cannot tell you.

Q. You said a moment ago, word was received from the manufacturer that he was forced to refuse the order—who forced him?—A. Well, that is a matter of supposition.

By the Chairman:

Q. Will you let us have the name of that manufacturer, give it to the Counsel for the committee?—A. I can give you the letter from the grower, giving us the information, I have it here.

Q. Give it to counsel for the committee?—A. He could supply us with the manufacturer's name.

Mr. Factor: We are learning a lot of things.

The Witness: "Perusal of attached documents—price lists and instructions to dealers—will show how the price structure is maintained. Examination of witnesses will bring out the extreme spread between costs of production and the selling price to the farmers. Quebec farmers benefit because they are supported by the provincial department of agriculture in all their negotiations and because government financial assistance is available for mass buying while Western Ontario is forced to carry a costly selling organization with keen competition although this competition gains the farmer nothing because of the measure of price control. In addition the method of carrying on the business in Western Ontario places the responsibility for collections on the shoulders of the farmer-agents and materially adds to the burden. Report has it that there are some 500 or 600 of these farmer-agents selling fertilizer and taking a toll of the business.

It is charged that the Eastern Canada Fertilizer Association maintains a black list and that on it are to be found the names of cooperatives and individuals who have been content to handle fertilizers on a smaller margin than that demanded by the Association. Some of these cooperatives and independent agents are able to carry on by bootlegging some of their ingredients and by use of substitutes in their mixtures.

Consideration of attached price lists will prove the existence of an agreement while we are convinced it will be possible for the committee to develop the extent to which pressure has been placed on firms handling such materials as sulphate of ammonia, potash and nitrate of soda by manufacturers of mixed fertilizers with an old friend, Canada Packers Ltd., foremost in the set-up."

The Chairman: Now, you are going to file the document you have just referred to.

By Mr. Ilsley:

Q. What is the reason they do not do something like this east of this line?—A. My understanding of it is, that some of the Quebec people have been selling in that area for a number of years, and they have made an arrangement to reserve that area for their own purpose. That was given to me here in Ottawa last Friday by the representative of the Quebec Cooperative Federee.

Q. There are other companies again selling to the Maritime Provinces?—A. That is my understanding of it.

By Mr. Young:

Q. Might I ask you, Mr. Robinson, who prepared this brief?—A. I did, sir, from information and the contribution of growers and others.

Q. What others?—A. Some one or two individuals interested in the jam business, one or two people interested in fertilizer sales.

Q. And that is all?—A. Yes, sir, but largely from the growers.

By Mr. Sommerville:

Q. The organizations in the council are those that I mentioned at the beginning the session on this subject, are they not?—A. Well, that is not the council proper, but those people have been interested in the preparation of the brief.

Q. The resolution came to us from a meeting of these organizations which requested this inquiry?—A. Yes, sir.

Q. The Ontario Fruit Growers' Association, the Ontario Vegetable Growers' Association, the Provincial Canning Growers' Committee, and the Niagara Peninsula Fruit Growers' Association?—A. Yes, sir.

Q. And the Ontario Growers' Markets Council?—A. Yes, sir.

Q. And these organizations represent, or can you give us any idea of the number of members or growers?—A. We believe there are about 25,000 fruit and vegetable growers in the province of Ontario, and these organizations would be speaking for the vast majority of them.

By Mr. Factor:

Q. What is the solution for the problem of the evil effect of the chain store on the fruit growers and vegetable growers? You have given us your brief. Now, can you suggest what this committee should do?—A. I think you ought to give me an opportunity to prepare another brief on that.

Q. I think it would be interesting, but assuming that your brief is correct in stating the evil effect of the chain store, what are we going to do about it?—A. I think there should be some measure of control. I do not profess to know the answer, but it seems to me there should be some control.

By Mr. Sommerville:

Q. The price lists that you have furnished are the price lists of various dealers in fertilizer?—A. Yes, sir.

Q. And you say the price lists give evidence of their being in agreement?—A. Yes, sir.

Q. You mean they are all in line with one another?—A. Yes, sir.

Q. And the prices are identical?—A. They are uniform.

Q. Uniform?—A. Yes.

By Mr. Senn:

Q. Would you name the different corporations that are interested in that?—A. I cannot give you that, no, sir.

By the Chairman:

Q. I suppose you submit that differential in price between eastern Ontario and Quebec and western Ontario is evidence that the prices in western Ontario are being maintained and are out of line with what, on a competitive basis, they ought to be?—A. Yes, sir.

By Mr. Factor:

Q. Have not you touched the problem there, that there they are enabled to have mass buying?—A. Not in eastern Canada.

Q. Well, in Quebec the government gave financial assistance for the purpose of mass buying?—A. That is one reason for it, and the fertilizer people will undoubtedly advance that, but that does not affect eastern Canada.

By Mr. Sommerville:

Q. That does not affect Ontario?—A. No.

By Mr. Factor:

Q. Well, if it is right in the case of the fertilizer to have mass buying what is wrong with the chain store in mass buying the product?—A. It might be all right.

By Mr. Kennedy (Winnipeg):

Q. I would like to draw attention to certain provisions in this sample grower's contract I have before me. I understand you filed typical original grower's contracts. I will not mention the names; they are all uniform. I draw your attention to certain matters at the beginning of the contract. This is a contract between the Canadian Canners Limited and a gardener for the delivery of tomatoes for this season's crop. At the beginning it starts:—

TERMS AND CONDITIONS

> Produce of all kinds must be strictly first class in size, quality and condition; absolutely fresh, firm and clean and in the very best condition for the purposes required.

Then going on:—

> The company, or its agent, is to be exclusive judge of the quality of all produce and of its condition and fitness for canning. When any produce is not judged to grade first class according to contract, a reduced price fixed by the company may be paid therefor, which must be accepted by the grower, or such produce may be rejected entirely.

Now, I may say I am familiar with contracts reading similar to this, but there is often a great difference between the letter of a contract and the spirit in which it is enforced. Reading that language I would say that all the power there rests with the canner. It first provides, that the produce must be first class, and so on, and then goes on to say, that the canner or his agent shall be the exclusive judge as to its condition and can reject it. Now, in the operation of that contract, or similar contracts, what has been the attitude of the company towards their interpretation of these contracts?—A. My advice is that they interpret the contract to suit their own purposes.

Q. You mean arbitrarily?—A. Yes, sir.

Q. And do you say unfairly?—A. Yes, sir.

Q. And you propose to produce witnesses to substantiate that?—A. Yes, sir.

Q. Then a further point just there, where the company or its agent so decides under this contract that a given shipment is not up to standard, not judged to grade first class under the contract:—

> a reduced price fixed by the company may be paid therefor, which must be accepted by the grower, or such produce may be rejected entirely.

To what extent has that power been exercised?—A. I cannot tell you.

Q. You do not know?—A. No, sir.

Q. Then another phase of it:—

> All produce when fit for delivery and acceptance within this contract shall at the option of the company, on notice to the grower, become the property of the company.

Now, I interpret that as meaning this, that if you are a grower of tomatoes and you have signed up under one of these contracts then at the option of the company giving you notice that crop, while still on your land, becomes the property of the company?—A. Yes.

Q. And they can exercise it, because this gives them the right to go in and possess it?—A. I do not know of any case where they actually did.

Q. That is what I want to get, because it goes on to say:—

> and the company shall have the right after such notice to enter upon the lands where the same is grown, or wherever it may be, and to take possession thereof and all costs, charges and expenses of taking and acquiring such possession shall be charged against the grower—

A. Not to my knowledge; I do not know of any case.

Q. It then goes on to provide, that even after they notify the grower, after it has become the property of the company:—

> and be deducted from any moneys payable to him, but the said produce shall at all times, until delivery thereof at its said factory be, and remain at the growers risk and subject otherwise in all respects to the terms of this contract, and the company shall not be liable to pay for any produce not so delivered to and accepted by it at its factory.

Do you know of any hardship arising from that clause?—A. Not to my personal knowledge.

Q. One other thing:—

> If the grower grows similar produce for, or supplies to other canners on or from the same land or other lands, this contract at the option of the company may be cancelled and terminated by the company at any time, in whole or in part, or to such extent as the company, by written notice to the grower may determine.

That raises the question of you, a grower, having contracted with a canning company for the sale of the produce of three acres of tomatoes; under this contract they can prevent you from growing on that land that you have for another company?—A. I do not know of any case where they have but our tomato growers may be able to give you information on that.

Q. Further:—

> The company reserves the right to cancel this contract on or before March 1st, next, by notice to the grower. Any notice to the grower hereunder may be given by mailing it in any Post Office addressed to him at his address as shown hereunder or delivered personally or left for him at his residence and shall be deemed to have been received by him if mailed, one day after mailing, or if left for him at his residence, on the day it is so left.

A. Quite true.

Q. You are familiar with those conditions?—A. Yes, sir.

Q. This is the uniform contract under which the growers deal with the canners?—A. Yes, sir.

Q. Well, all the comment I would make is this: That in view of this evidence and similar evidence that we have had in connection with the growers of tobacco, the primary producers, so far as I am concerned, are in a similar position to an army armed with clubs and scythes compared to an army equipped with the most modern mechanized equipment?—A. Usually the grower or the farmer is not organized at all because of the fact that for years he has had an inherent aversion to regimentation. He is hopelessly licked before he starts.

Q. Well, the point is, that under a contract like this the company has all the power?—A. Yes, sir.

Q. If they want to exercise it?—A. Yes.

Q. And has there never been any action taken about the unfairness of that contract?—A. The individuals have expressed themselves forcibly by talking to some grower organizations, but there has never been any action taken on the part of anybody that I know of. The average grower finds himself helpless to beat such a contract.

Mr. SOMMERVILLE: He cannot, there is the contract.

By Mr. Factor:

Q. How long has this form of contract been in existence?—A. I have been in the business fourteen years and I think they have been using that form for that length of time more or less.

Q. I suppose what they want, Mr. Robinson, is, instead of being armed with clubs and scythes against modern machine guns, to be placed either on an equality in armament or let everybody disarm, put them all on the same level.—A. One or the other. Of course, I think they would rather have a little heavier armament and go to it.

Q. In these days there is a great urge for universal peace?—A. I may say that whether it is right or not, whether we are unjust to the canners or not, the sooner the canners recognize the fact that the farmers hate their very name and change their tactics throughout the whole province of Ontario the better for themselves. Now, we may be unjustly accusing them; we may not have all the facts, and possibly when they tell their story it may be that we are absolutely wrong, but my personal experience, of over fourteen years in the gardening business, to put it frankly, the grower has not a chance; he is licked before he starts.

By Mr. Sommerville:

Q. Then the net result of the argument of your brief with respect to the method with which the prices are fixed for the finished product is this, is it not, that the chain store has obtained a price of from 72 to 75 cents a dozen for your canned packages?—A. Yes, sir.

Q. And that that price, you say, is, on the admission of the canners, below the cost of production?—A. Yes, sir.

Q. That the canner then out of that reduced price of 72 cents to 75 cents a dozen takes the cost of processing plus a reasonable profit, plus the cost of storing until they are delivered to the large buyer, and whatever is left goes to the farmer?—A. Yes, sir.

Q. Now, that is the order of things?—A. Yes, sir.

Q. And you say that the process is wrong?—A. It should be reversed.

Q. They ought to start with the cost of production to the primary producer and build upon that?—A. Yes, sir.

Q. And the net result of building upon that would be a very little alteration in the price to the consumer, would it?—A. Very little.

Q. You were referring to different sized packages. Here are two cans—tomato cans. You will observe that one of these is the standard 16 ounce can?—A. Yes, sir.

Q. This is a new one, I am told, just put up within the last thirty days, net weight $14\frac{1}{2}$ ounces, $1\frac{1}{2}$ ounces less than the 16 ounce can; drained weight 7 ounces; that is a little less than 50 per cent solid?—A. Yes, sir.

Q. Solid tomato?—A. Yes, sir.

Q. $1\frac{1}{2}$ ounces net weight would mean on that basis about $\frac{3}{4}$ ounce less solid weight. What can be the object of producing a can that is out of standard for the sake of $\frac{3}{4}$ of an ounce of solid tomato? Can it have any effect at all on the price to the grower, $\frac{3}{4}$ of an ounce of tomato?—A. It would have an effect.

Q. It would have an effect?—A. Yes, sir.

By Mr. Factor:

Q. What is the price to the consumer of the small packages?—A. I have not the least idea.

Q. The consumer, in looking at those two packages, can tell they are not the same.

Mr. SOMMERVILLE: If you look at them side by side.

The WITNESS: I do not think the consumer to-day is buying that way. I think the consumer to-day, through advertising urge, is buying by price. We have run into it this week for fresh produce; we ran into it yesterday with asparagus. The average individual does not stop long enough to consider that slight difference.

By Mr. Sommerville:

Q. You see, if you only have them in the store there is nothing to compare it with, but if you have them side by side then you can tell.—A. Yes.

Mr. KENNEDY (*Peace River*): Is the price marked?

Mr. SOMMERVILLE: No, there is no price mark on this. There is nothing on the standard tin, just the 16 ounces, but there is on this tin, which is a sub-standard, a small type size with the weight $14\frac{1}{2}$ ounces.

Mr. FACTOR: Of course, it depends on what the consumer pays for the two.

Mr. SOMMERVILLE: I fancy so.

Mr. KENNEDY (*Peace River*): Do you say, Mr. Sommerville, there is a difference of $\frac{3}{4}$ of an ounce solid?

Mr. SOMMERVILLE: Well, the net weight of the whole liquid and solid is $14\frac{1}{2}$ ounces, that is $1\frac{1}{2}$ ounces of the liquid and solid less than the standard. The net weight of this can, drained weight, is 7 ounces; that is a little less than 50 per cent of the content of solid, and therefore the net weight, the drained weight of $1\frac{1}{2}$ ounces would be $\frac{3}{4}$ of an ounce.

Mr. KENNEDY (*Peace River*): The amount of tomatoes in this is just worth a cent.

By the Chairman:

Q. Having in mind this differential in size, what is the attitude of the grower towards the variation in sizes?—A. We want standardization and we want to stop this practice of the chain leading the processor into similar channels.

Q. Of variation?—A. Yes, variation. We want to stop that if we can.

By Mr. Factor:

Q. What is the attitude of the consumer toward it?—A. I do not think the consumer is really aware of the situation. I honestly think if the consumer knew of some of our difficulties he would be with us. I am quite convinced that the consuming public in Canada is with the primary producer. I do not think there is any doubt about it.

By Mr. Young:

Q. Can you tell me then, Mr. Robinson, what happened here a few weeks ago when the price of cauliflower was trebled they suddenly disappeared?—A. I do not know of the particular instance.

Q. Had it anything to do with seasonal duties going on?—A. I cannot tell you. I would have to know the details. I do not think it is fair to ask me because I do not know anything about it. However, I do say this, that the grower is just like anybody else, that he can get the price of his product too high, and when he does get it too high the answer is automatic and sudden and sharp. The buying stops, that is simple law.

Q. In your brief you have given us considerable information about the pressure that is put on the canners by the chain stores. Where do you get this information? You are a grower; you do not represent the canners or the chain stores.—A. The lead to it came from an article by the cost accountant of Associated Quality Canners, one of the largest companies in Ontario.

Q. That is the lead?—A. Yes, sir. We followed it up in the usual channels, discussing with canners. I think if you bring some of the independent canners here—

Q. You went to the canners to get this information?—A. Through round about methods.

Q. Have you any other source?—A. I think it is general knowledge throughout some districts that such things are taking place.

Q. And that is the only source you have?—A. Yes, sir.

By Mr. Sommerville:

Q. I think you quoted from Mr. Tallman's article, did you not?—A. Yes, sir.

Q. And Mr. Tallman is the cost accountant of the Associated Quality Canners?—A. Yes, sir.

Q. And they are a very large organization?—A. Yes, sir.

Q. Next to Canadian Canners probably the largest in Canada?—A. Yes, sir.

By Mr. Factor:

Q. I was always under the impression that during the last few years the canners were in pretty bad shape, that they had been losing money?—A. My answer to you, Mr. Factor, is that I think possibly there is some justification for that statement as it refers to some of the canners. I do not think it refers to all, but unquestionably refers to some.

Q. They are in bad shape?—A. Undoubtedly some of them are from what knowledge I have. I think it is due to price war in part. However, I am not conversant enough with the facts, but I would say that that has something to do with it.

Q. And the increase in the price of the can, I suppose, has something to do with that too?—A. I cannot say.

By Mr. Edwards:

Q. Might it have something to do with the question of paying dividends on watered stock?—A. I think that is a factor.

Mr. SOMMERVILLE: Thank you, Mr. Robinson.

Witness retired.

L. B. REYNOLDS, sworn.

By Mr. Sommerville:

Q. Mr. Reynolds, what is your business?—A. Well, sir, I am a fruit grower and gardener.

Q. A fruit grower and gardener?—A. Yes, and manager of the Cooperative.

Q. One of the ancient occupations that came down to us from the Garden of Eden?—A. Yes, sir.

Q. It has apparently as many troubles to-day as it had in those days.

Mr. KENNEDY (*Winnipeg*): It was only apples they grew in those days.

Mr. YOUNG: Don't forget the figs.

By Mr. Sommerville:

Q. And you have been associated with the fruit growing industry for a great many years, Mr. Reynolds?—A. And the selling end of it. I am the manager of the Cooperative.

Q. And the selling end of it?—A. Yes, sir.

Q. And where do you operate?—A. Waterford, Ontario.

Q. And now, Mr. Reynolds, some information has been given to us in the brief presented by Mr. Robinson. Will you be good enough to give us your evidence with respect to the statements therein contained, and the information which you desire to present to the committee respecting the fruit growing section of this presentation?—A. Well sir, in regard to the strawberry situation and the raspberry situation there are certain things that we would like to bring forward. I have made a few notes here, and, with your permission, I will read them, and be willing to answer any questions that might come up.

In the first place, in the growing of berries it is a very uncertain business. A grower takes big risks. Drought and white grubs may prevent a stand of plants being obtained. Unsuitable fall, winter and spring weather may cause heavy damage and winter injury. Black rust may come in. Frost may get the blossoms, and heavy rain in blossom time may work off pollen. Lack of rain in fruiting time, and too hot weather may dry them up, as it did last year. The attached cost sheets show a cost of $336 per acre for growing and harvesting a crop of 4,000 boxes to the acre. At 8 cents per box this would be a net loss of $16. The average crop, however, for Canada is under 2,000 boxes per acre. Individual years occur where the average yield has been as high as 3,500, but they are rare indeed. If all deterring factors are absent, which rarely occurs, individual yields of 6,000 and 7,000 boxes occur. Such yields are always pointed out by the canner and jammer in talking prices.

Q. When you talk of a jammer you mean a jam manufacturer?—A. Yes, a jam manufacturer.

Q. Not a wind-jammer?—A. No, not a wind-jammer.

Q. This is a new word to our vocabulary in the committee?—A. With strawberries at 10 cents in a good year a good grower ought to break even, but in a bad year he will lose heavily. Any price below that is ruinous. Now, I will say that last year we had every factor against us in our district. We had rain in blossom time which worked the pollen off the late berries and there were no late berries at all. The season was cut in two by that rain. Then we had drought after that rain that cut off our first crop of berries, and the consequence was that my personal loss was something like $1,300.

By Mr. Factor:

Q. The canners are not to blame for that?—A. No, the canners are not to blame for that, but what I am pointing out is a man has his heavy losses as well as his gains and these things have to be averaged up, whereas, whenever you start talking price to the canner he always immediately points out those 5,000 or 6,000 or 7,000 boxes to the acre yield that we obtain occasionally.

Q. He wants to present a good picture to you, Mr. Reynolds?—A. Well, that may be.

Mr. Sommerville: Proceed, Mr. Reynolds.

The Witness: Well, to take up the matter of strawberries. A box of strawberries contains 20 ounces, by law, which with good berries will yield I pound of fruit, hulled and ready for jamming. This would make one 32-ounce jar of 50 per cent fruit jam. Now, that jar there has 12 ounces of strawberries in it. We had to pack them into a 32-ounce jar to get them in there. They have not been cooked or boiled down but that is less than the 50 per cent jar of fruit.

By Mr. Sommerville:

Q. What do you mean by that?—A. Fifty per cent jam.

Q. The bottle you are producing there now which is referred to as exhibit 168 is filled to the shoulder with strawberries alone?—A. Yes, not hulled.

Q. Fresh, dry, not hulled, not boiled, and it contains at that 12·80 ounces of fruit?—A. Yes.

Q. And that is a 32-ounce jar?—A. Yes.

Mr. Factor: What is required to give 50 per cent fruit content to the jam?

The Witness: It requires 16 ounces, 3 ounces more.

By Mr. Sommerville:

Q. 3·20 ounces more than the strawberries shown here are required to produce an ordinary 50 per cent?—A. No, 40 per cent.

Q. 40 per cent of fruit?—A. Yes.

Mr. Edwards: Would 40 per cent be a high standard?

The Witness: A good deal higher than the average.

The Chairman: Now, then, 12·80 ounces is a 40 per cent fruit in a 32-ounce jar?

The Witness: Yes. I will refer to that a little later on. One pound of strawberries would make a 32-ounce jar of 50 per cent fruit jam and an advance of 1 cent per box in strawberries would mean 1 cent per jar in jam of a 32-ounce jar, a 15 per cent jam.

By Mr. Sommerville:

Q. In the 15 per cent fruit jam?—A. Yes. One box would make over 3 jars of jam and it would take an advance of 5 cents per box in the price of the berries to make a 1-cent advance in the 32-ounce jar. What I am trying to point out, sir, is that the cost of the fruit is a very small item in the manufacture of jam, and it is also more so in vegetables, but in the jam it is a very small factor, and an advance in the price of the fruit means very little on the advance in the price of jam.

Mr. Factor: The consumer would only have to pay a cent more for a 32-ounce 15 per cent content of jam and it would mean a 10 per cent increase to the grower.

Mr. Sommerville: It would mean more than a 10 per cent increase—a 12½ per cent increase in the return to the grower.

The Witness: It would mean 5 cents a box to the grower.

The Chairman: You had better let the witness give his own explanation.

The Witness: Now, just to show you, this one here would be a 10 per cent. They tell us there is no 10 per cent allowed according to law. Probably there is not. Maybe we should put three more berries in there and call that a 15 per cent, and that is what is in a lot of the jams under government regulations.

The Chairman: In our strawberry jam?

The Witness: Yes, in our strawberry jam.

By Mr. Sommerville:

Q. No, that has to be called pectin and strawberry jam?—A. Yes, pectin and strawberry jam. We will do a little shopping. After some of the things that were said here this morning Mr. Bower and myself thought we ought to go out and buy a little jam and see what we got and show you what we got. Now, we went out and purchased some jam—I will not give you the names of the stores publicly, but I have them here on this list to check them up. I have the bills for the jam from the stores at which we bought this jam; and we went around and bought a little jam, and we will produce some of the stuff that we bought.

Mr. Kennedy (*Winnipeg*): Mr. Sommerville, this is not one of the weak minded growers.

The Witness: In the first place, every store we went into, we went into and said, "We want some pure strawberry jam." You see what we bought.

Now, in one store we went into we said, "We want some pure strawberry jam" and the salesman said, "We have no pure strawberry jam; we have strawberry with added pectin and colour." Now, we bought that jar of jam, sir. These jars of jam are labelled exactly the same.

By Mr. Sommerville:

Q. Let me see them?—A. They have on there—I will give you this bill that you can put with it. That jar of jam in that hand cost 43 cents. That is Cross & Blackwell's jam with added pectin and colour. That jam that you have there in the other hand is labelled exactly the same, is it not, sir?

Q. Yes.—A. It is supposed to be the same weight, is it not, sir?

Q. I do not know.—A. They claim it is.

Mr. KENNEDY (*Winnipeg*): Did they say it was?

The WITNESS: Yes. They said it was. That jam is 25 cents, and it is labelled exactly the same way.

Mr. YOUNG: Is it the same maker?

The WITNESS: No. There is a spread in there of 18 cents. If they gave 2 cents to the grower how would it affect the price of that jam?

Mr. FACTOR: One quality may be away better than the other.

The WITNESS: It does not matter. They are here under the government regulations. You have here what there must be in jam labelled of that kind.

By Mr. Sommerville:

Q. These are both jams which comply with regulation showing number 3A —15 ounces of strawberries?—A. No. I do not think so, sir.

Q. I beg your pardon. These are for jams labelled 2A—strawberry jam with added pectin and colour to comply with the regulations for the manufacture of strawberry jam 2A?—A. In the same government regulation. Now, sir, I wish to call your attention also to the fact that Crosse and Blackwell with added pectin and colour is—

Q. That is 43 cents?—A. Yes, sir.

(Crosse and Blackwell strawberry jar marked exhibit 170).

Q. Old City strawberry jam with added pectin and colour, 25 cents.

(Old City strawberry jam jar, market exhibit 171).—A. That Old City jam is advertised as a leader in that store to-day. I did not know that when I bought it.

Mr. KENNEDY (*Winnipeg*): Is the weight marked on it?

The WITNESS: There is supposed to be 2 pounds in each one. The regular price of it, however, is 30 cents and it is a special sale to-day.

Mr. FACTOR: Is there any difference in quality?

The WITNESS: Not under the government regulations.

Mr. FACTOR: But the government regulations provide a certain content, but does that necessarily follow that because they comply with the regulations that the quality of the jam is the same?

The WITNESS: What I am trying to say to a certain extent is that the government regulations are wrong and they are not fair to the grower.

Mr. FACTOR: That may be so.

Mr. YOUNG: This evidence seems to indicate that one man can take certain ingredients and make better jam with it than another man can.

The WITNESS: That may possibly be so.

Mr. KENNEDY (*Winnipeg*): Are the same proportions of the ingredients supposed to be approved too?

The WITNESS: 2A is supposed to be made up of 32 pounds of strawberries, 4 pounds of pectin approximately, 65 pounds of sugar approximately, 10 pounds of water. 111 pounds boiled to 100 pounds of jam with a minimum of 66 per cent water and insoluble matter. This jam is properly labelled "strawberry jam with added pectin."

Mr. KENNEDY (*Peace River*): Could it be analyzed?

The CHAIRMAN: Surely.

The WITNESS: No, that is one of the things that cannot be done. Any fruit matter that is in there cannot be separated from the real fruit.

By Mr. Sommerville:

Q. There is no process of separating the pulp from the strawberry?—A. No, sir; not as I undertand it.

Mr. EDWARDS: There is no reason to think that one manufacturer's product would be better than the others in that case.

The WITNESS: Remember that jam was sold to me as pure. No, they said in that case that was not pure jam.

Mr. FACTOR: I cannot understand the point you are making.

The WITNESS: I think it will be clear in a little while that what I am trying to demonstrate is that there is a big variation in these qualities of jam and a big variation in price. Now, here is a jam. I went in this store and asked the man, "Have you got any pure strawberry jam"? He said, "Yes, we have." He sold me this jar of jam as pure jam. It states on there "added pectin, colour and sodium benzoate." That jar of jam was sold to me for 32 cents. Where does the consumer get off at in this, I am asking?

Mr. SOMMERVILLE: And that is a 32-ounce jar of jam?

The WITNESS: Yes. (Jar Anne Paton Strawberry Jam with notation "pectin, colour, and sodium benzoate, marked exhibit 172.)

Mr. KENNEDY (Winnipeg): Do you suppose he would know what pure jam was?

The WITNESS: Well, if he does not, how does the consumer who is buying it know. If the storekeeper does not know what he is selling where is the consumer going to get off at with these regulations. He does not know whether he is buying pure jam or 15 per cent jam.

Mr. FACTOR: Was that last jar of jam bought in a chain store or from an independent retailer?

The WITNESS: I do not know—an independent store. Here is another jar of jam we bought, and this man sold us this jar of jam which is one of the few jars of pure jam we were able to buy, and the price on it was 49 cents. He also sold us this raspberry jam—pure jam with added pectin and colour for 11 cents. "Strawberry jam pure, finest quality, absolutely no pectin, pulp or seed used, strawberries and sugar only, free from artificial preservatives."

(Jar Smith's Pure Strawberry Jam filed, marked exhibit 173.)

Mr. YOUNG: Is it possible to make strawberry jam without something to set it?

Mr. SOMMERVILLE: Oh, yes.

The WITNESS: I am not saying that that is the best jam made—a pure jam.

Mr. YOUNG: I understand that strawberries and sugar alone will not make jam.

The WITNESS: There is a definition here: 1A-55 pounds strawberries, 62 pounds sugar boiled to 100 pounds jam with a minimum of 66 per cent water insoluble. This jam is labelled pure strawberry jam.

Mr. YOUNG: I must have been misinformed. I always understood you could not make jam with strawberries and sugar alone.

Mr. SOMMERVILLE: That is the kind mother used to make. She never put anything else in.

Mr. YOUNG: She did not make jam; she put it in a bottle with juice in it. It was not jam.

Mr. SOMMERVILLE: Now, the next bottle you bought is this one entitled "Raspberry jam with added fruit, pectin and colour". That would be under 2A of the regulations, and that was bought for 11 cents.

(Jar of Gold Medal Raspberry jam, filed marked exhibit 174.)

By Mr. Sommerville:

Q. Do you know what weight that is?—A. No. That is for the public to guess. It is sold to them. They are suckers when they buy it. This store assured me that it is the purest jam that can be bought—raspberry jam with added pectin and colour, and I paid 19 cents for that raspberry jam.

Q. Do you know how much there is in this?—A. With added pectin and colour under your government regulations.

(Jar Sunrise Raspberry jam, filed, marked Exhibit 175.)

Q. You do not know the weight in it.—A. No. Here is the same grade. This is Crosse & Blackwell's raspberry jam with added pectin and colouring. I bought this as the purest jam I could buy. I was assured of that by the salesman that that is what it was.

Q. It has got seeds in it?—A. Yes. I took a witness along with me.

Mr. YOUNG: Are you sure it is not timothy seed?

Mr. SOMMERVILLE: You are getting on to some of the secrets of the jam business.

(Jar of Crosse & Blackwell raspberry jam filed, marked as Exhibit No. 176.)

By Mr. Sommerville:

Q. It was bought for how much?—A. 21 cents.

Q. And you don't know the weight of it?—A. No. The other was 19, and that was 21, the same government label standard on it. We went into this store and asked for pure strawberry jam, and he had two funny looking bottles there, so we took the two of them. On examination we find that this one is pure strawberry jam, 12 ounces; and this one which is also sold as pure strawberry jam, is strawberry jam with added pectin and colouring.

Q. Let me see that bottle. 12 ounces of pure strawberry jam. What was the price of that?—A. 25 cents.

(Jar of Crosse & Blackwell pure strawberry jam filed, marked Exhibit No. 177.)

The WITNESS: And that jar is 39 cents. That is 12 ounces.

By Mr. Sommerville:

Q. 12 ounces is the small one?—A. Yes.

Mr. YOUNG: Is that net?

Mr. SOMMERVILLE: It says net, yes. This is Crosse & Blackwell's strawberry, with added pectin and colouring, price 29 cents, and there is no weight on it, but from the size of it it looks like a 32-ounce bottle like the rest, the bottle with the shoulder.

By Mr. Sommerville:

Q. This last bottle was sold to you as pure strawberry jam?—A. Yes.

(Jar of Crosse & Blackwell's strawberry jam filed, marked Exhibit No. 178.)

By Mr. Ilsley:

Q. If they don't have any weight on them, are they not a standard weight?—A. I don't know. I am one of the innocent public in this matter, and I know nothing about it. But what I am wishing to point out is that there is a great variation in the price. And what do you know—I am going to ask you a fair question—what do you gentlemen know of what it means when it says, "With added fruit pectin"? Have you any idea? Do you think the average public has any idea of what that means? Do they know how much dilution there is in that jam, or anything about it? Is it a fair deal to the consumer or to anybody else?

Q. Well, if they don't know or care— —A. How can they find out? There is no way they can find out that I know of.

Q. Perhaps it does not make any difference to them.

Mr. SOMMERVILLE: This jam that was referred to this morning is advertised at 25 cents, Eatonia strawberry jam, specially packed with higher fruit content than regulations require, with this special price of 25 cents, and somebody got it off the wrong shelf and paid 34 cents—May 15. This is called "Eatonia strawberry jam with added fruit and pectin, contains colouring." That apparently is a 32-ounce bottle.

(Jar of Eatonia strawberry jam filed, marked Exhibit No. 179.)

By Mr. Kennedy (Winnipeg):

Q. Before you go on with that, I want to get a point straight. These containers do not have the weight of the jam on them?—A. Can you see it there?

Mr. SOMMERVILLE: No.

By Mr. Kennedy (Winnipeg):

Q. I cannot see it, but you have examined it?—A. Some of them do. A few of them do.

Mr. SOMMERVILLE: One did.

By Mr. Kennedy (Winnipeg):

Q. But not regularly?—A. No.

Q. From your experience in looking at them, you can't tell us the differential in weights?—A. No, I don't know. I think they are supposed to be 32 ounces, but I don't know.

Q. That is what I want to get, whether or not the general impression is that they are a standard weight?—A. I could not tell you. I know that some of them are not 32 ounces. They may be 16, and some are 12.

By Mr. Edwards:

Q. You suggest that the net weight be shown plainly on the bottle?—A. Yes, and not only the net weight, but the contents.

By Mr. Kennedy (Winnipeg):

Q. And that they be standardized?—A. Yes.

The CHAIRMAN: Of course, I think what Mr. Reynolds is driving at is this: You may have a jam which is sold to the public which they think is pure, but which may contain only 15 per cent strawberries.

The WITNESS: Certainly?

The CHAIRMAN: And another bottle of the same size which is pure or which is as nearly pure as it can be made, would contain about 50 per cent of strawberries.

Mr. SOMMERVILLE: The minimum is 55 per cent of strawberries.

The CHAIRMAN: His argument is that it cannot be claimed that a cent or so a pound on the raw material can materially affect the packers or the jam manufacturers' price.

The WITNESS: That is one point that I wish to make. Look at the variation in the price of these, and with that variation in the price of jam, what does a cent or two a box amount to on the strawberries?

The CHAIRMAN: Quite so.

The WITNESS: With a pound of jam, it amounts to practically nothing.

The CHAIRMAN: That is your main argument.

The WITNESS: That is one of my leading arguments. The other one is this, that we as growers have been told by one jam manufacturer—I have been told by three different jam manufacturers: "We don't buy many strawberries any more; we don't need them." One man said, as stated in that brief, that a few years ago he took 4,000 crates of strawberries to manufacture his jam, and last year he used 900 to manufacture the same quantity of jam. As a result of that, our principal and leading market has been taken away from us. We have to put out a pure article and deal fairly and squarely with the public on it. Why should the manufacturers be allowed to take our product that we produce, and do things with it which we are not allowed to do? They take that product and they sell it to the public as strawberry jam. But it only contains a very small percentage of strawberries. We object to the use of the word "strawberry" there. I think in this argument I am making that the majority of the jam makers are with me. Some of these jam makers have spent an awful lot of money in advertising, and putting out a standard brand of jam, and had their business ruined by one of the—we fought this matter out to get this put on the labels some years ago, and they are put on the labels. They are put on there in a rather contradictory way. Here is a strawberry jam or raspberry jam with other fruit juice. "Note: Words 'With other fruit juice' must follow directly after or immediately below words 'Strawberry jam'. They must be shown in letters at least one-half height and of equal visibility as the words in naming the jam."

Then down below that is strawberry jam with added pectin, and raspberry jam with added pectin.

> NOTE: If colour or preservative is used, the label should show the declaration of presence of same as follows: Contains artificial colour; contains benzoate of soda; or contains artificial colour and benzoate of soda.
>
> This declaration to be in type not less than one-eight of an inch in height.

By Mr. Kennedy (Peace River):

Q. Why should not the labels have a statement on them saying exactly what is in the jam?—A. That is what we want to know.

By Mr. Sommerville:

Q. Your argument is that if the jar bore a label showing the content of strawberries and the content of other ingredients, the public would know what they were buying?—A. Yes.

Q. That it would be in the interests of the growers?—A. Yes.

Q. Because they would then buy the better quality of product, and not that which has the other ingredients in it. Is that your argument?—A. We contend further than that, that they should not be allowed to use the word

"strawberry" or the word "raspberry", or the name of the fruit on a jam that contains less than 30 per cent of the product.

By Mr. Senn:

Q. Could you say whether the other ingredients, other than the strawberries in those jars, have the same food value, or more or less food value than the strawberries themselves?—A. I don't know anything about that.

By Mr. Edwards:

Q. What are the other ingredients?—A. Mostly pectin, I believe. They are defined in the government regulations, which can be got.

Mr. SOMMERVILLE: We have a jam manufacturer who will tell us what they are.

Mr. FACTOR: Pectin is made out of apples, I understand.

The WITNESS: Here we are, fruit.

> Fruit: Where a percentage of fruit is required it is deemed to be fresh fruit or its equivalent in preserved, dried or otherwise prepared fruit, e.g. 55 per cent strawberries would be equal to $82\frac{1}{2}$ 2 plus 1 strawberries, or it would require 75 pounds or more, water-pack raspberries to equal 50 pounds fresh raspberries.
>
> Sugar: Where sugar is mentioned it is understood to include cane or beet sugar or invert sugar syrup. It does not include glucose, corn syrup or other sweetener.

Then it goes on with other fruit. Then fruit pulp:—

> For the purpose of the regulations respecting jams, jellies and marmalades, fruit pulp is the manufacturer's intermediate product made by boiling clean, sound whole fruit or parts of fruit and removing the inedible portion therefrom.

It does not say what kind of fruit. They can put wild bananas in it, if they want to.

By Mr. Factor:

Q. Let me ask you this: You, as a strawberry grower want to put more strawberries in?—A. Certainly.

Q. What about the growers of other fruits, those from which this pectin and other ingredients are made? What would they say if you eliminated them?—A. If they are going to put theirs in, it should be sold as such, not sold as our product.

By Mr. Kennedy (Peace River):

Q. What is benzoate of soda? It is not allowed in England, I understand?—A. Well, I am not altogether a chemist. I think the department could answer that question.

Mr. SOMMERVILLE: Perhaps our jam man can tell us.

By Mr. Sommerville:

Q. Before you proceed, Mr. Reynolds, there are a couple of other bottles that you produced here that have not been identified; or a statement has not been made as to what they are here for. Perhaps you can give us those?—A. They were bought as jure jam.

Q. This is a jar of Old City?—A. Yes.

Q. Raspberry jam with added pectin and colouring?—A. Yes.

Q. A 32-ounce bottle?—A. That was bought there, at that store (indicating).

Q. And that was bought—A. We were assured that was the purest jam that could be bought. Nothing to it.

(Jar of Old City raspberry jam filed, marked Exhibit No. 180.)

By Mr. Sommerville:

Q. With reference to this last jar, Harvest brand strawberry jam with added pectin and colouring, what are the circumstances or information—you will give evidence with respect to that later. We will leave that.

The CHAIRMAN: Are you going to put that in?

Mr. SOMMERVILLE: No, not at the present time.

By Mr. Sommerville:

Q. Now, what further have you?—A. Well, we have possibly one other grievance. It affects us rather seriously. After years of struggle we obtained a duty on raspberry pulp which was imported principally from Tasmania. The climatic conditions there are conducive to enormous yields of a poor quality of raspberry. It makes a jam very dark in colour and poor in flavour. It is used as a base for raspberry jam quite a bit, and also is used for manufacturing jam, alone, with added flavour. The duty was only on a short time when, out of a clear sky, it was removed by the Australian treaty. This pulp receive a government export subsidy, and in six months after the duty was cut off, at least two years' supply for Canada was stored in Montreal and offered at six cents per pound. Raspberries can't be grown in Canada profitably for much less than twice that, but are of a far superior quality.

By Mr. Kennedy (Winnipeg):

Q. I take it you are in favour of a duty on any such commodity coming in in competition with local growers?

By Mr. Factor:

Q. It was under the empire agreement?—A. Yes.

Mr. KENNEDY: Let him answer my question, Mr. Factor.

The WITNESS: What was it?

By Mr. Kennedy:

Q. I take it that you are in favour of a duty on such commodities coming in in competition with local growers?—A. Yes.

Mr. FACTOR: You will have to revise the empire agreement, Mr. Chairman.

The WITNESS: But the point we are making is that that comes in here under a government subsidy from the government of the country it comes from.

By Mr. Kennedy (Winnipeg):

Q. That is an element of unfair competition that you want corrected by a duty?—A. Yes. We can't object to those products coming into our country, but we certainly do object to them coming in when they are coming in under subsidy from the country from which they come.

Q. I agree with you.

By Mr. Sommerville:

Q. With regard to these pulps, these raspberry pulps are taken by the manufacturers of jam and are made the base for jams manufactured by them?—A. Yes. And you go to sell them raspberries, and they will promptly tell you, "We can't pay you any big price for your raspberries because we can buy this stuff."

Q. And that complies with the law because it is raspberry?—A. Yes.

By Mr. Young:

Q. Are there no manufacturers of jam in this country who want to put out a quality product, and who are willing to buy the better quality Canadian

berries?—A. Yes, there are and they do. There is no question about that. But they are up against it with the man who does not do that, and sells this cheap product that undersells him all the time. There is one other thing I wish to point out in the regulations, and that is this: For instance, we will take that Gold Medal jam. That is a brand that is put up, I believe, by the National Grocers. It is allowed, under the government regulations, to label them with the second seller's label; the second handler of them is allowed to label the stuff with his name on them.

By Mr. Sommerville:

Q. It is not the name of the manufacturer at all?—A. No, it is not the name of the manufacturer.

Q. The name of the distributor is on it?—A. That jam may be manufactured by half a dozen different manufacturers. I don't say that these people do it. But I do say—at least, I have been told by jam makers that it is done, that there are a number of small concerns that will jump into it, if there is a glut in the market on fruit, and buy a lot of cheap fruit, and they will put it up in the lowest grade of jam. Then they will sell it to one of these chain store organizations, and put that chain store's label on it. And they set the price for the good jam that is manufactured in the proper manner by the jammer who is trying to manufacture the best, trying to do the right thing. That works a hardship on him, and that reflects back on the grower.

By Mr. Edwards:

Q. Is your point that the manufacturer should have his name on his product?—A. Certainly. Why should not he?

Q. I am not saying why should not he. But you say he should?—A. Yes.

Q. That is right?—A. That is allowed under the regulations, that a distributor may put his name on there. Let the distributor put his name on if he wants to, but also have the manufacturer's name on.

Q. But it must be identified?—A. Certainly.

By Mr. Factor:

Q. How long have these regulations been in force?—A. They came in force in November, 1930.

Mr. Sommerville: There were regulations before that.

Mr. Factor: What is the joke?

Mr. Edwards: That is a saucy answer.

The Witness: There were regulations before that didn't allow these words put on there: "With added pectin and flavour or fruit juices." They had to put up a good quality of stuff before that. With the coming in of this—well, they were diluting the jam before that, but they didn't put it on the labels. Then the manufacturers got permission to put that on the label, in that little bit of print and in language that it is impossible for the average consumer to understand what he is buying.

By Mr. Factor:

Q. In other words, before the regulations were amended they bought "Strawberry jam" that was either made out of that or other ingredients?—A. Yes. They were required more or less to turn out a higher quality of jam. I don't think they were allowed to put out these low grade jams at all.

By Mr. Sommerville:

Q. At the present time, all they require to tell you of the product is, if it is this second grade, "Strawberry jam with pectin"?—A. Yes.

Q. They don't have to tell you what else there is in the product?—A. No.

Q. And you think they should?—A. Yes.

Q. And then you say that this has been made to a price; the variation is because of a desire to make it to a price?—A. That is what the jammers tell us.

Q. And they have not a desire to do it, but it is made to suit a demand for a price?—A. Yes.

Q. And that accounts for the variation that you have given us in the price to-day, and because of the proportion of fruit that is used in this particular grade of jam, and that a small amount of a cent a box to you would not be reflected in any serious increase to the purchaser?—A. Five cents a box would not.

Q. Five cents a box would not increase the jam more than one cent?—A. It would not increase the jam more than one cent.

Q. In a 32 ounce jar?—A. Five cents would not be noticed in the spread that is being put on the different prices that these jams have been sold by the retailers that have been produced here to-day, which are labelled as the same quality jam.

Q. Five cents a box?—A. No, sir.

By Mr. Kennedy (Peace River):

Q. Can you give us a statement of the prices paid for strawberries in the last five years; can you file that with the committee?—A. Yes.

Q. We should like to have it.—A. I cannot file it to-day; I would have to go home to get it.

By Mr. Young:

Q. You spoke about the duty on pulp. Will you tell us about the duty on baskets?—A. What do you want to know about it sir?

Q. I understand you can get baskets much cheaper in the United States than you can in Canada, but the government would not permit you to buy them unless you paid an extra price?

The CHAIRMAN: Parliament.

The WITNESS: Well, I wish to state that we purchased crates in our association the other day—well, yesterday, as a matter of fact, and I showed, or told the manufacturer of crates who was asking us the price of 24 cents for a 24 box crate, that; and he explained that he could not make that crate and come out reasonably under that price. Last year we paid him, I think, 21½ cents for the same crate. Last year we paid him \$3 or \$3.90 for baskets. This year the price for the baskets is \$5.50 with 10 per cent off to the association handling them.

By Mr. Sommerville:

Q. A hundred?—A. A thousand.

Q. These are small shrubbery baskets?—A. Yes. The price of those baskets in Kentucky, a better grade, made of better materials and better made, materials which could not be obtained in Canada, because they use gumwood which holds nails much better than any wood we have, was 12½ cents, f.o.b. Paducah, Kentucky.

Q. 12½ cents; what quantity?—A. Apiece; 24 cents in this country.

The CHAIRMAN: What is the freight?

The WITNESS: It works about between 19 and 20 cents delivered in Canada.

By Mr. Kennedy (Winnipeg):

Q. Do you know anything about the labour conditions under which they are made down there?—A. Yes, I know it is very cheap labour, mostly negro labour.

Q. Much cheaper than the labour up here?—A. Yes, sir, and their baskets over there, I am not quite positive of the quotations, but I think it was $3.50 a thousand.

By Mr. Sommerville:

Q. Against $3.90 last year?—A. Yes, and $4.90 this year.

Q. $4.90 net this year?—A. Yes, to an association; the regular price is $5.50.

Q. Laid down here these baskets would be what?—A. I cannot tell you exactly off-hand what it would be, but they would be somewhere in the neighbourhood of the same price, very little difference in the price.

Q. In the Canadian basket and the basket brought from Kentucky?—A. Brought in here and the duty paid, a marked difference in the price of the crate and a better crate. Nevertheless, we bought our crates and boxes from the Canadian manufacturers, because we believe in supporting Canadian industry. We prefer to pay a higher price and we do so, but it is a fact that we can buy them cheaper by importing them.

By Mr. Edwards:

Q. You cannot very well sell your product to the makers of baskets in Kentucky?—A. No, but I can tell you we have done it. We can sell our berries in the States, and if we do that we can get a rebate on the crates and baskets and it is quite a considerable item.

Q. Another factor is in bringing light bulky baskets from a long distance. They are bulky, and they are subject to a very high freight rate?—A. No; they can be knocked down, 3,300 crates in a box, and they all go in one car.

Q. Is not there a very great competition in Canada among the basket manufacturers?—A. There is none whatsoever.

Q. No competition?—A. No, sir.

Q. Are not there a lot of people making baskets?—A. The prices are all the same, and the same companies do not sell in the same area.

Mr. Factor: Did you not hear about the box manufacturers being fined?

By Mr. Young:

Q. I did not get an answer to my question?—A. What is your question?

Q. My question was this: could not you buy baskets in the States at a certain price which our customs' department would not allow you to pay? They insisted on your paying more, or else paying additional duty?—A. Well, I cannot answer that offhand. I have not bought any baskets in the States for some time, because we do not believe in it, unless we are going to ship to the States, and in that case we are forced to do it, on account of the enormous difference in prices.

Mr. Sommerville: You get a rebate?

The Witness: 99 per cent of our duty back.

The Chairman: What is the duty, 10 per cent?

The Witness: No, sir—I cannot tell you offhand, but I think it is 30.

Mr. Ilsley: On the crates?

The Witness: Boxes and baskets both, and then they add freight on before the duty is taken off.

By Mr. Kennedy (Peace River):

Q. What about the duty in the case of a crate of strawberries, Canadian baskets against United States baskets?—A. Well, at the present time, I do not think it would be but very little, because if you entered 4,000 baskets, that would be about $1.60.

Mr. SOMMERVILLE: Is that on an average of 2,000 crates?

The WITNESS: $6.50.

By Mr. Young:

Q. Will you tell us about the duty on fertilizer? You are not very far from the American border, are you?—A. I cannot tell you anything about it.

Q. What is to stop you from bringing your fertilizer from the States?—A. Well, in the first place the average grower does not know how to go at it.

Q. Somebody would develop a business if there was an opening there?—A. Well, I understand that the same people control a good deal of the interests in the States that they do over here.

Q. Do you know anything about the prices in the States?—A. There are men coming after me who know all about that.

Mr. SOMMERVILLE: I understand the ingredients are free?

The WITNESS: I do not know anything about it.

By Mr. Senn:

Q. You just made a statement that the same interests control the fertilizer companies on both sides of the line? Are you certain of that?—A. I can only say in regard to potash, especially, and nitrate of soda.

Q. That does not make the fertilizer. These are only ingredients?—A. I never buy anything but ingredients.

Q. Do they not come in free of duty? I think you will find that to be so? —A. I do not know.

Q. Do you think the basket manufacturers are making undue profit at the price they are offering those baskets to you to-day?—A. As to that I cannot say; but I do know that the basket manufacturers have been carrying an immense credit account; that due to the terrible conditions in the industry, a great number of growers have not been able to pay for crates and baskets, and they have enormous outstanding accounts which they figure in their overhead.

Mr. SOMMERVILLE: Very large losses have been sustained.

The WITNESS: Yes.

By Mr. Senn:

Q. Do you think that the price charged by the Canadian Basket manufacturers at the present time is unfair?—A. You would have to have an accountant go through their books to determine that. I cannot tell you offhand.

By Mr. Sommerville:

Q. You gave us a figure a few moments ago to show that if you put American baskets in Canada you had figured on the basis of 4,000 baskets to the crate?—A. Yes.

Q. I think we had evidence given us here to show that on an average there have been 2,000 baskets to the crate?—A. Yes.

Q. Is that correct?—A. Probably.

Q. That would mean that the difference would be about $3 a crate on the basis of 2,000 baskets to the crate?—A. Yes, sir.

Witness retired.

Mr. E. M. SMART, called and sworn.

By Mr. Sommerville:

Q. Mr. Smart, what is your business?—A. Manager of the Canning plant of Smart Bros. Limited.

Q. Located where?—A. Collingwood.

Q. And your people are both growers and canners, are they?—A. Yes, sir.

Q. Both growers, canners, and jam manufacturers?—A. Yes, sir.

Q. And have been for some years?—A. Yes, sir.

Q. Now, we have had some evidence here to-day with reference to the various grades and qualities of jam. Perhaps you could give the committee the benefit of your knowledge with respect to this industry, and what has been happening in the last few years with respect to how it affects the growing of raw fruit, and the use of raw fruit in these jams?—A. My personal observations are that the present pectin jam containing 30 to 35 per cent of fruit is preferable to the average consumer over what is known as a pure jam, under the regulations.

Q. Yes?—A. It is not too rich, and in use it is much appreciated by the consumer.

Q. Yes. What else goes into the jam with strawberry, for instance; when you have 32 per cent of strawberry, what else have you?—A. Pectins and sugar.

Q. Are there any other ingredients?—A. Not that I know of, unless it is specified on the label.

Q. Those are the only ingredients. In what jam does the pulp go?—A. Pulp would be used in a compound jam. You mean, apple pulp.

Q. Any kind of pulp, what pulps are used?—A. Strawberry, raspberry, citron and frozen fruits.

Q. What other pulps are added to strawberry and raspberry?—A. In what grade of jam?

Q. In the cheaper grades of jam?—A. I believe that pulp is used rather extensively; that is the only other ingredient that I know of that is used to any account.

Mr. KENNEDY (*Winnipeg*): Will you have the witness define what pectin is?

Mr. SOMMERVILLE: All right, what is pectin, Mr. Smart?

The CHAIRMAN: As used in a bottle of jam, that is what you mean?

Mr. KENNEDY (*Winnipeg*): Yes.

The WITNESS: I think it would take the Douglas Packing Company, who manufacture pectin, to give you a definition of what it is. I do not know.

By the Chairman:

Q. Can you tell us how it is supposed to be made?—A. It is supposed to be made out of apple and other types of fruit.

By Mr. Sommerville:

Q. Yes?—A. Apples principally.

Q. What does it do, what is the effect of it, what is the purpose of it?—A. Creates a jell.

Q. Creates a jell?—A. In the jam.

Q. And what quantity of pectin would be added to the 32 per cent of the strawberry in the jam?—A. The regulations call for four pounds.

Q. Four pounds for 32 pounds of strawberries?—A. Yes.

Q. And then in addition to that, what else; what are these other ingredients, sugar and water? Now, Mr. Smart, has there been a dropping off in the quantity

of strawberries used in the manufacture of strawberry jam of late?—A. Not in our plant.

Q. That is, to make the same quantity of jam that you made five years ago, do you use the same quantity of strawberries?—A. Exactly.

By the Chairman:

Q. Mr. Sommerville, Mr. Smart said I think in his opening remarks, he used the term 35 per cent of strawberry was used in jam; did you not use that term?—A. Yes.

Q. What about these lower grades that are labelled 15 per cent?—A. Our company does not manufacture any of those grades, so that it would be impossible for me to answer your question on that subject intelligently.

Q. You could not answer that question?—A. No.

By Mr. Sommerville:

Q. What do you say with respect to the competition of these lower grade jams with your own?—A. Competition is severe.

Q. What effect has it on the better grade of jam?—A. It has curtailed our sales.

Q. Has there been a substantial increase in the quantity of these lower grade jams being manufactured in the last few years?—A. I do not know that.

Q. You do not know that?—A. No.

By Mr. Young:

Q. Does it sell cheaper than your own?—A. Our sales have been curtailed. for what reason I do not know; that would be the better way to put it.

By Mr. Kennedy (Winnipeg):

Q. Don't you know whether this lower grade jam has displaced it?—A. There is supposed to be a depression.

Q. Yes. I do not care much whether you answer it, I am just trying to clear up the point. You say your sales have been curtailed, and you mention that this lower grade jam is severe competition; are you not trying to get clear as to whether or not this lower grade of jam is gradually displacing the better type of jam. That is the point?—A. I do not know.

Q. I thought, being a manufacturer, you would know.

By Mr. Young:

Q. Does this jam sell cheaper than yours?—A. Well I presume that it does.

Q. You do not know how much?

By Mr. Kennedy (Winnipeg):

Q. Are you the manager of your business, might I ask?—A. I am manager of the canning company.

Q. But you have nothing to do with the sales end of it?—A. Yes, I have.

By the Chairman:

Q. You have some reluctance to answer these questions. We do not want actually to press you, but we are anxious to get at the facts. If you have any reluctance to explain why I am sure the committee will be very reasonable with you?—A. Well, the sale falls off on some of your products, and you are not just sure why. You keep trying to get more business, and delve into it, and try to find out why. This is just a matter of competitors doing more business. Our company cannot find any fault with that, because they possibly have been a little smarter in getting business.

By Mr. Kennedy (Winnipeg):

Q. But you do not investigate why it is their product has displaced yours?—A. Not necessarily, sir.

Q. Do you?—A. We have our own opinion.

Q. What is your opinion?—A. Our opinion is that our price is too high.

By the Chairman:

Q. Why?—A. Because we won't sell at a loss, we will do without the business first.

By Mr. Young:

Q. Do you put up a better product?—A. We think we put up first class products.

By Mr. Kennedy (Winnipeg):

Q. Then it comes down to the cheaper jam displacing your product?—A. Well, price rather rules the situation.

By Mr. Sommerville:

Q. Rather than quality?—A. We think that has a great influence on it.

By the Chairman:

Q. Do you find any retail organizations coming to you in the last few years and demanding an article to sell at a given price?—A. No.

Q. You have never experienced that?—A. No.

Q. How do you market, do you send your travellers out?—A. We have no travellers.

By Mr. Sommerville:

Q. How do you market your goods then?—A. Through brokers.

Q. And you have not had any requests to make goods at a certain price for any organization?—A. No, sir.

By Mr. Young:

Q. You have never made any investigation as to how much your trade is higher than the others?—A. Well, that investigation would have to cover the other fellow's prices. There is no combine that I know of. We feel that we would secure more business if our prices were equal or lower.

By Mr. Sommerville:

Q. What do you say, Mr. Smart, you have heard the statements made by Mr. Robinson in reading from his brief to-day on the jam situation; is there anything in that brief that you take exceptions to, or with which you do not agree?—A. Well, my name is not signed to that brief. There was one place where one claim was made, that some jam manufacturers had 15 per cent of berries in their jam.

Mr. YOUNG: 10 per cent?

The WITNESS: 10 per cent or 15 per cent. Of course, I have no way of knowing that and I am not responsible for that statement.

By Mr. Sommerville:

Q. You are not responsible for that statement?—A. No.

By the Chairman:

Q. You say it is not so in your case?—A. It is not so in my case. That is the limit of my knowledge.

By Mr. Sommerville:

Q. But did you consult with Mr. Robinson and give him certain information in connection with the jam manufacturing business?—A. I have talked to Mr. Robinson on the jam business, yes.

Q. And when he was preparing the brief for presentation here to-day you knew that he was presenting the brief?—A. I never saw the brief until to-day.

Q. That is not the point, Mr. Smart. I was asking you if you knew he was presenting this brief here to-day.—A. Well, I suppose I had an idea to that effect, but no person informed me directly that he was going to present a brief.

Q. Well, my reason for asking you is because when the brief was presented it was stated that certain witnesses would support the statements contained in the brief, and your name was one of those that was given to us. Did you have any discussion with Mr. Robinson and others in connection with the problems of the grower with respect to the canning and manufacturing of jam?—A. A general discussion, yes.

Q. What phases of it did you discuss wtih him? What are the difficulties that the grower is up against at the present time, Mr. Smart, in the manufacture of jam?—A. In the past three or four years there is no doubt the grower has been up against the difficulty of merchandising fruit to the canners and to the general public by below cost of production.

Q. There is no question of that, is there?—A. Not in my mind, no.

Q. And how do you account for his being obliged to sell to the canners at less than the cost of production?—A. General conditions is one of the contributing factors.

Q. What other contributing factors are there?—A. Well, a great many people are out of work and they turn to a garden or a means of providing a livelihood, and that has created a surplus in the market that is not visible in a commercial way.

Q. Yes?—A. But it is so in every town and city.

Q. Any other factor? Has the severe competition among large distributors, large retail organizations, had any effect upon the grower?—A. I have had no dealings with them in the line of goods and cannot answer the question.

Q. You do not know?—A. No.

By the Chairman:

Q. In this brief there are one or two statements. At page 18 Mr. Robinson has this:—

> A lot of the supposed to be high quality jams to-day have not near the amount of high quality fruits in them that the ordinary canned and preserved fruits had a few years ago.

Do you endorse that statement?—A. I would pass no comment on it. I would not endorse it because I do not know. I would suggest that it be referred to the Department of Agriculture to take these samples and grade them, test them and find out if that is so.

By Mr. Sommerville:

Q. But in your years of experience as manager up there have you not come across any of these conditions that have been referred to?—A. What particular conditions?

Q. Well, the condition that Mr. Robinson has read with respect to the jam manufacturers.

By Mr. Factor:

Q. What is the name of your company?—A. Smart Bros. Limited.

Q. Who are interested in the concern?—A. It is a family concern.

Q. It is a family concern?—A. Yes.

Q. And you have no connection with any other company?—A. We are independent, no connection.

Q. Have you discussed the matter of this problem of jam with any other canning concern?—A. Not till to-day.

Q. And with whom did you discuss it to-day?—A. I was speaking to Mr. Bell of the Canadian Canners, sitting with him back there for a few minutes, and talked about jam in a general way.

By Mr. Sommerville:

Q. Yes, and did he give you his brief on the jam situation, or did he show it to you?—A. He told me a few things about jam, just a general outline, that he claimed his company were not using anything except government regulations; that was about the limit of it.

By Mr. Factor:

Q. What else was discussed?

Mr. ILSLEY: I do not know why he should be cross-examined.

Mr. SOMMERVILLE: No, perhaps not.

By the Chairman:

Q. Do you agree with this statement:—

> "Some of them started out to cut the amount of fruit used, substituting pectin and apple products, glucose, etc."

A. Government inspectors examine all factories at regular intervals and take samples and check, and if that situation existed it should have been checked up.

By Mr. Sommerville:

Q. Do you know anything about the change in the use of sugar and syrups, increasing the use of syrups instead of sugar, Mr. Smart?—A. No, I do not.

By the Chairman:

Q. Do you use sugar or syrup?—A. We use sugar.

By Mr. Sommerville:

Q. What are the syrups that are referred to in the manufacture of jam?—A. I believe they refer to —syrup.

Q. And do you know whether or not this is one of the ingredients used in the manufacture of cheap jam?—A. I do not know.

By Mr. Young:

Q. Do you do any canning? You do not can tomatoes, do you?—A. Yes, sir.

Q. Tell us about these contracts you have with the growers of tomatoes.—A. Our contracts?

Q. Yes?—A. We contract with the growers in February for an acreage of tomatoes. The contract is not limited, and we have never reduced our price below 30 cents a bushel.

Q. That is to say you take all their product?—A. Yes, sir.

Q. You do not confine yourself to 200 bushels to the acre?—A. No, sir.

Q. You take all their product and you never go back on your product?—A. In the fall of 1931, in October, there was an early frost and we limited the delivery.

Q. Because the quality was damaged?—A. That was in October.

By Mr. Sommerville:

Q. But you had taken delivery right up to then, had you?—A. That was the only occasion that we never took full delivery.

By Mr. Young:

Q. Then these complaints to not apply to you?—A. I do not know. We have had no personal complaints.

By Mr. Sommerville:

Q. Well then, buying your tomatoes at 30 cents, do you sell these through brokers also?—A. Yes, sir.

Q. And what organizations are they sold through, the large chain stores or individual retailers?—A. Chain stores, wholesalers.

Q. Chain stores and wholesalers?—A. Yes, sir. No retailers.

Mr. SOMMERVILLE: Well, thank you, Mr. Smart.

The WITNESS: There is one thing: We have no federal inspection of provincial canning factories or jam factories when they sell within the province; they do not come within the federal inspection in the same way when we export outside of the province.

By Mr. Sommerville:

Q. Yes, federal laws apply to all those companies which export from the province?—A. Yes.

Q. Or interprovincial trade?—A. Yes.

Q. But companies that operate and sell their product entirely within the province are not subject to federal regulation. What effect has that?—A. Well, I would just like to make a recommendation, that all canning factories and all jam companies be subject to federal inspection and regulation; also a minimum wage be established for canning factories and preserving factories in a federal sense, which would give us as well as other canners a chance to pay better prices to the growers. We would not be suffering from unfair competition.

Q. Yes. What have you found with reference to the competition from these jam manufacturers who are entirely within the province and do not do business outside the province? What observations have you to make to the committee on that kind of competition?—A. It is fair competition, but I still think that they should be federally inspected.

By Mr. Factor:

Q. What about the wages? You spoke about low wages. How are the wages?—A. The minimum wage regulations for Ontario are higher than in Quebec and lower than in British Columbia for female employees.

By the Chairman:

Q. You think there should be a uniform wage?—A. We should have a common rate of wages.

By Mr. Kennedy (Winnipeg):

Q. Approximately how many employees have you in your factory?—A. An average of from 65 to 70 and a peak of 120.

Q. What proportion of that is female?—A. Seventy-five per cent.

Q. What is their average weekly wage or earnings?—A. Well, the government regulations require—

Q. I know what the government regulations require, but what is their average earning?—A. Throughout the summer?

Q Yes?—A. I have not got that. I did not come prepared with anything like that.

Q. But you know approximately. Take during the season when they are actually canning, what do girls earn?—A. They should earn in the neighbourhood of at least $12 a week.

Q. In the neighbourhood of at least $12 a week?—A. Yes.

Q. Can you say anything as to the condition throughout Ontario in canning factories as to what girls actually earn and receive?—A. Well, I believe that the regulations are enforced.

Q. Well, what about your own case, your factory?—A. They enforce them in our plant.

Q. They enforce the regulations in your plant?—A. Yes, they do.

Q. They do?—A. Yes.

By Mr. Young:

Q. What months do you operate in the year?—A. How many months?

Q. Yes?—A. Approximately five months.

Mr. SOMMERVILLE: Thank you, Mr. Smart.

The CHAIRMAN: It is almost six o'clock. We will adjourn until eleven o'clock to-morrow morning.

The committee adjourned at 5.55 p.m. to resume on Friday, May 18, at 11 a.m.

HOUSE OF COMMONS,

ROOM 368, May 18, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 a.m., Hon. H. H. Stevens presiding.

Mr. Norman Sommerville, K.C. of Toronto and Mr. W. W. Parry, K.C. of Toronto appeared as counsel for the committee.

The CHAIRMAN: The minutes of yesterday's meeting record the names of the witnesses heard and the list of exhibits filed. I declare the minutes approved.

I have here a communication from Mr. Francq of the Minimum Wage Board of Quebec. The communication contains a statement of the textile industry showing the number of firms and the number of employees in the three classifications, the knitting mills, cotton mills and silk mills, first in the city of Montreal and then the province of Quebec as a whole. It shows the number of firms reporting and the firms employing workwomen, piece workers, time workers, and the average weekly wages received and the average weekly basic wage. It also includes Minimum Wage board typical orders No. 5 and No. 6, giving the rulings of the board on certain phases of employment. These are filed as exhibit 181, and are available to members of the committee.

Communication from Mr. Francq *re* Minimum Wage board, province of Quebec, filed and marked exhibit 181.

HENRY WILLIAM HUNT called and sworn.

By Mr. Sommerville:

Q. Mr. Hunt, what is your occupation?—A. I am a fruit and vegetable grower.

Q. One of the men of the land?—A. Yes.

Q. And where is your farm?—A. Northumberland.

Q. In Northumberland county?—A. Yes.

Q. Whereabouts do you live?—A. Brighton.

Q. That is in the heart of a very large fruit and vegetable growing district?—A. Yes, sir.

Q. And your county is close to the very large fruit and vegetable county of Prince Edward?—A. Very close.

Q. So you have a large area devoted to fruit and vegetables?—A. Yes.

Q. In that area you do a very large business, I understand, with the canning companies?—A. Yes.

Q. Then, the farmers growing vegetables do not market them ordinarily through the basket method?—A. No.

Q. They market them practically entirely with the canning company?—A. Yes.

Q. You are then, dependent upon the canning companies for your outlet for the product of growers?—A. That is right.

Q. Are you a member of the Northumberland county canning group association?—A. Vice-president.

Q. You are vice-president? You have been associated with this business for a great many years?—A. Twelve years.

Q. Now, you heard the brief read by Mr. Robinson yesterday, and I shall ask you to be good enough to give this committee the benefit of your knowledge and information respecting the vegetable situation particularly. I understand you have a particular knowledge of tomatoes?—A. Yes, mostly tomatoes. In what line would you wish me to carry on with this?

Q. Tell the committee in your own way what are the difficulties that you and your association have in the matter of tomato growing with relation to canning companies?—A. Well, the chief thing we have against it is price. It cannot be grown for the price paid by the canners those last three years.

Q. That is, the crop cannot be grown for the price paid by the canners during the past three years?—A. No, they cannot, not under the canners' ruling of 175 to 200 bushels per acre.

Q. As a result are there accumulating debts and obligations in your district?—A. Oh, most certainly.

Q. What effect has the very low price that has been paid for tomatoes upon the growers?—A. Really, the growers have to go to the bank with the canners' contract to get money to pay last year's taxes, and still going in the hole all the time because they cannot produce this year's crop at a profit, and they are going down hill.

Q. Now, is that a general condition that is prevalent in a number of cases throughout your district?—A. Oh, a tremendous lot.

By Mr. Young:

Q. When they take those contracts to the bank, they can get money?—A. They certainly can. That is admitted by the bankers. We have got that admission from one of the bank managers.

By Mr. Sommerville:

Q. They can get money to pay the previous year's taxes?—A. I asked a bank manager if that was so, if he had that as collateral. He had a pile, up so much.

Q. He just raised his hand about a foot above the table to show how many he had?—A. About that.

Q. About that many contracts held as collateral for farmer's obligations? —A. Yes.

Q. At that particular bank branch?—A. Correct.

By the Chairman:

Q. Do you suggest, Mr. Hunt, that that fact forced the growers to accept contracts that otherwise they would not accept?—A. It certainly does; in my opinion it certainly does.

Q. You know the contract we had here yesterday?—A. Yes, I have seen them.

Q. You have seen lots of them?—A. Yes.

Q. What is your view of the contract, now, independent of the necessity of signing one for the purpose of bank credit??—A. Well, in my opinion, it is not a contract.

Mr. SOMMERVILLE: It is not a contract?

WITNESS: I do not think it is; it is not mutual between the two; it is all for one.

The CHAIRMAN: I would say it is rather an amazing contract, but we should like your view on that.

WITNESS: My view on that is, it is not a contract, and is very very unfair to the grower in any way at all.

By the Chairman:

Q. Would you say that is a representative view of the growers?—A. It is, sir; it certainly is.

Q. The grower resents having to sign an owners' contract of that kind?—A. Yes, they do resent it yet they are helpless.

Q. They are helpless?—A. Yes.

By Mr. Sommerville:

Q. They have got their farm and equipment, but they have no other outlet?—A. And people dunning them for money. They can go to the bank when they get one of those contracts and get cash to carry on with.

The Chairman: Did you ever find a loophole in the contract through which you could escape?

Witness: No, never did yet; the canners have lots of them.

Mr. Factor: I think it would be well to read one of the contracts in the evidence. I do not want to waste the time of the Committee but I think that could be done .

Mr. Young: I think we had the essential features read in by Mr. Kennedy yesterday.

Mr. Sommerville: We had two or three features. At this point we will just have a copy of the contract copied in the record and treated as though it were read in.

The Chairman: And it will be described as the contract which the witness has referred to.

TOMATOES

Read the Whole of This Contract Carefully.

CANADIAN CANNERS, LIMITED

HEAD OFFICE, HAMILTON, CANADA.

GROWER'S CONTRACT

I hereby contract and agree to grow and deliver during the season of 1934 to the Canadian Canners, Limited, hereinafter called the company, at its factory or elsewhere in Brighton if required by it the following produce in first class order and condition and when at its best condition for canning purposes and in accordance with the terms and conditions hereinafter set forth, which are hereby accepted and made part of this contract, the Company agreeing to pay me therefor the prices specified herein which are hereby accepted.

3 acres tomatoes at 27½ cents per bushel.

Canadian Canners Ltd to supply plants at $3. per M. Positively no payment will be made unless weight tickets are surrendered at time of settlement.

TERMS AND CONDITIONS.

Tomatoes.

Produce of all kinds must be strictly first-class in size, quality and condition; absolutely fresh, firm and clean and in the very best condition for the purposes required. Frozen, sunburnt, bruised, unsound, over-ripe, under-sized and underdeveloped specimens cannot be accepted.

Tomatoes should be of the large, smooth red varieties, not less than 2½ in. in diameter, solid, sound and clean, picked when red ripe and delivered fresh

picked, free from stems. Rough, undersized, jammed, bruised, sunburnt, or dirty tomatoes, or those partially ripe, green on one side or with yellow ends, will not be accepted.

Quality. The company, or its agent, is to be exclusive judge of the quality of all produce and of its condition and fitness for canning. When any produce is not judged to grade first class according to contract, a reduced price fixed by the company may be paid therefor, which must be accepted by the grower, or such produce may be rejected entirely.

Payment. Payment will be made for tomatoes on December 1st, or one half November 15, and balance December 15 next, subject to one per cent discount for payment in full on November 15, growers' option.

Crop Reports

Crop prospects must be reported weekly to the local office on postcards if supplied for that purpose. In case of failure to comply with this provision, it is agreed that other growers complying therewith are entitled, in case of congestion at the factory, to priority in the acceptance of their produce.

Seed

The company reserves the right to supply at reasonable prices all seeds necessary for filling this contract.

Crates

The grower must furnish all necessary tomato crates which must be distinctly and plainly marked for ready identification and shall be at all times at owners' risk. All tomato crates must be weighed back if requested.

No tomatoes grown under this contract will be accepted after October 1 unless the company consents to such delivery.

Delivery

Delivery shall commence as soon as the first of the crop is in suitable condition for delivery and is available in sufficient quantities to warrant operation of the factory, in the opinion of the company without further notice. All produce must be delivered before six o'clock p.m. and unless otherwise agreed, no delivery will be received on Saturday or any day preceding a public holiday. The company will not be bound to take delivery of any produce on any days on which the Agricultural Fair of the County or District is held, if unable to operate at full capacity through shortage of labour.

When, in its opinion, the company is unable from any cause to take proper care of the produce at its factory for proper canning, the company, upon notice to the grower, may limit the delivery of produce to a quantity per acre per day, which, in its opinion, will allow it to handle the produce in such manner as to take proper care thereof, and the company at its option, shall not be bound to accept from the grower a quantity in excess of 175 bushels per acre.

Special

All produce unfit for delivery and acceptance within this contract shall, at the option of the company, on notice to the grower, become the property of the company, and the company shall have the right after such notice to enter upon the lands where the same is grown, or wherever it may be, and to take possession thereof, and all costs, charges, and expenses of taking and acquiring such possession shall be charged against the grower, and be deducted from any moneys payable to him, but the said produce shall at all times until delivery thereof at its said factory be, and remain at the growers' risk and subject otherwise in all respects to the terms of this contract, and the company shall not be liable to pay for any produce not so delivered to and accepted by it at its factory.

In the case of a wrongful sale of the produce, the company at its option shall be entitled to receive from the grower 50 per cent of the price received by him therefor as liquidated damages, which the grower agrees to pay.

If the grower grows similar produce for, or supplies to other canners on or from the same land or other lands, this contract at the option, of the company, may be cancelled and terminated by the company at any time, in whole or in part, or to such extent as the company, by written notice to the grower, may determine.

Fires, Strikes, Etc.

In case of fire, strikes, power shortage, or any cause beyond the control of the company, whereby it shall be unable to operate its factory, all rights of the growers under this contract shall be suspended, and the company shall not be bound to accept delivery of produce hereunder until such cause can be removed, and provided that if, in the company's opinion, the factory cannot be operated to carry on its contracts, this contract may, upon notice to the grower, be thereafter determined and ended by the company, but in such case the company will use its best efforts, if feasible in its opinion, to receive and use the produce at some of its other factories.

The company reserves the right to cancel this contract on or before March 1 next, by notice to the grower. Any notice to the grower hereunder may be given by mailing it in any post office addressed to him at his address as shown hereunder or delivered personally or left for him at his residence and shall be deemed to have been received by him if mailed, one day after mailing, or if left for him at his residence on day it is so left.

Witness

Name of Contractor................
Post Office Address................

....................Lot...... Con............ Tp.

Canadian Canners, Limited, hereby accept the said contract and agree to bind themselves to the terms thereof.

Date .... Factory No............

(Signed in triplicate) ....Local Manager.
Canadian Canners, Limited.

Mr. FACTOR: Are they all the same?

Mr. YOUNG: Mr. Smart said last night they had a different contract.

The CHAIRMAN: This is the tomato contract.

Mr. SOMMERVILLE: Of Canadian Canners.

The CHAIRMAN: A grower's contract with Canadian Canners. Is that the type of contract to which you have been making reference?

WITNESS: That is the one we have.

By Mr. Factor:

Q. That is the form of contract you entered into with the Canadian Canners?—A. Yes, and the other canners are very much the same.

By Mr. Young:

Q. The other canners' contracts are very much the same; they vary a little.

Q. We had a canner here last night who said he had a different one, that he took the whole crop?—A. Oh, it must be an independent canner. I am not dealing with independent canners in any way.

By Mr. Sommerville:

Q. When you referred to canners, you referred to the larger companies?—A. I refer to the larger companies.

Q. Canadian Canners, Associated Quality Canners, and so on?—A. Nesbitt Canners.

Q. Nesbitt Canning Company is one that would not be like the other one, and similar companies?—A. Yes.

Q. Can you give us some observations with respect to the operation of the contracts? We had some information given in the brief yesterday about how it works; but I understand you attended a meeting of the executive of your association recently and some observations were made there?—A. Possibly it would be as well to read the minutes of our association meeting.

Q. Yes.—A. Held on April 22nd.

Q. Last month?—A. Yes.

"Managers of large canners are given a bonus for the men who put up the most cases per bushel".

That is one of the points there.

Mr. Young: Most cases per bushel?

Witness: Yes, given a bonus.

By Mr. Sommerville:

Q. Given a bonus?—A. Yes.

Q. By the manager of the canning company you mean the branch managers?—A. That is correct.

Q. The branch managers of certain large canners are given a bonus for the men who put up the most cases per bushel?—A. Yes.

Q. You mean by that one branch plant competes with another?—A. Yes.

Q. And the manager who is able to get the most cases per bushel out of his tomatoes gets a bonus?—A. A point that I would like to make is this, there would be the matter of dockage.

The Chairman: Exactly what happened in the grain business in the west years ago before the amendment to the act?

Witness: If that manager was against the growers in any particular way at all, he could very easily take off five pounds or ten pounds per crate, or per bushel as the case may be, as dockage, wastage on tomatoes, and that would consequently bring his package of crates up.

By Mr. Young:

Q. How do you agree on dockage?—A. You cannot agree; never has been agreed on.

Q. He fixed the dockage?—A. By God he does, in great shape. Excuse the English, please; I feel hot on those things, sometimes.

By Mr. Sommerville:

Q. That is to say, because of this competitive system amongst the branch managers of the large canning companies, and a bonus being given to the men who produce the most tomatoes out of what they buy——A. Correct.

Q. ——you think it is an inducement to the local manager that prompts him to make use of his dockage privileges to reduce or to take from the farmer a certain amount of weight?—A. I certainly do.

Q. And reduce the grade that the tomatoes ought to come at?—A. The grade is all one grade, anyway; good, bad or indifferent, it is all the same.

Q. Good, bad or indifferent, it is all the same?—A. It all goes through, flies and everything.

Q. It all goes in?—A. Yes.

By Mr. Young:

Q. Do you say flies go into the can?—A. It all goes through the factory, anyway. By God, I have seen it.

Mr. EDWARDS: We will all be off canned goods for life.

Mr. SOMMERVILLE: I think Mr. Hunt was just joking about that.

Mr. HEAPS: He had better say he was joking.

By Mr. Sommerville:

Q. The fact is all the tomatoes that go in there go through the canning plants?—A. Yes.

Q. And you feel that the inducement that is offered to the manager to produce the most cans per bushel affects his judgment?—A. I certainly do.

Q. In dealing with the farmer; and the result is that he docks the farmers for grades and weights?—A. I think so.

Q. And reduces the amount that he pays to the farmer accordingly?—A. I really do not think so.

Q. And shows a better return for what he has bought?—A. Yes.

Q. Was that the general consensus of opinion of the growers who were present at your association meeting in April last?—A. Yes.

Q. Yes.—A. "Culliver and Leavens, of Prince Edward county, supply everything, charge 5 cents per dozen—pay for machine in three years—buy own motor—pay cash for can cases and balance to grower—take whole pack."

Q. For the home canner proposition?—A. Yes. I am just giving the minutes of our meeting—it is more probably notes.

> King and Rankin—furnish all equipment.—Grower furnishes labour, fuel, plants, building, guarantee 40 cents per case, take everything grown. Pay for pack first December.

Q. There is another firm that offered to take the home-canned tomatoes on this basis?—A. Yes.

Q. Guaranteeing 40 cents a case?—A. Yes.

Q. Would 40 cents a case mean 40 cents a bushel?—A. Yes, roughly it would mean that.

Q. It takes how many bushels of tomatoes to make a case?—A. Roughly, one bushel would make a case of tomatoes if they are like asked for in the contracts.

Q. If according to the quality asked for in the contract?—A. That is right.

Q. So that the guarantee of 40 cents a case would mean a guarantee of approximately 40 cents a bushel?—A. Yes; they clean them, pay for the labour, fuel and plant.

Q. They have to pack them?—A. Yes.

By Mr. Factor:

Q. What else goes into a can of tomatoes besides tomatoes?—A. Supposed not to be anything.

Q. Nothing at all?—A. Supposed not to be; tomatoes and all their juices.

Q. Tomato and juices?—A. I think the act says a certain amount of solids.

Q. The act requires that the can shall be so much. That is the requirement as to the quantity of solids?—A. That is the canner's point of view.

By Mr. Edwards:

Q. Is there any chemical to preserve them?—A. I do not think so.

By Mr. Young:

Q. Under this home-canning arrangement, how do they get uniform quality of tomatoes put up in different homes under different auspices?—A. Well, it would be about the same as if I would go to my own pack and pick some for the wife to put up. I would not willingly pick anything that was bad. I do not mean to say I would not pick them undersize.

Q. What supervision is exercised? The farmer can take his pick when he has them at home; but is there any inspection conducted in the homes when they are doing the work? How do they know it is properly done?—A. If it is done by more than one family, I would presume it would be government inspection.

Q. You are a grower of tomatoes?—A. Yes.

Q. Somebody offers you so much per case—I want you to preserve a can of those tomatoes in your own home, and I offer you so much a case for doing it. How do I know you put them up properly and that your pack is the same as your neighbour's pack, and when they put the label on them, how do they know it is a uniform article?—A. They do not know at all; they presume so.

By Mr. Sommerville:

Q. At any rate, you do not pack?—A. We do not pack.

Q. You sell to the canner?—A. I sell to the canner.

Q. These are the reports of the meeting in regard to the price offered?—A. That is done, and it can always be verified.

By Mr. Young:

Q. Are we going to have here the men who buy tomatoes on this basis?—A. If you want names, I can give names.

Q. What I want to get at is this: if I go into a store and buy tomatoes that are packed on that basis, when I buy that man's brand, am I sure I am going to get the same brand tomorrow as I got today?—A. No, I do not think so. The season would vary them a little bit, certain parts of the season.

By Mr. Sommerville:

Q. Perhaps we can clear this up for the record. In this home canning industry, each farmer packs the crop that he raises himself?—A. Yes.

Q. Sometimes he may pack some of his neighbour's?—A. Yes.

Q. But it is all done in the kitchen of the farmers?—A. Or in the small outbuildings built for the purpose.

Q. Then, the pack is sold to some distributor?—A. Yes.

Q. The distributor supplies the labels?—A. Yes.

Q. And the same label will go on all the pack in the district?—A. That is one of the—

Q. And so the distributor is distributing tomatoes that are packed perhaps in ten, twenty, thirty or forty different farmers' homes?—A. Yes, to the best of my knowledge, that is correct.

Q. That is the system?—A. Yes.

Q. I am just trying to get an idea of the system. Therefore, there is no person who can say that this can of tomatoes is the same as the next one, because it may be packed in a different farmhouse?—A. Yes.

Q. And there being nothing but tomatoes going into the can, that is the only guarantee you have that there is nothing else put in?—A. Person's integrity itself.

Mr. HEAPS: What about the health regulations governing packing?

The CHAIRMAN: There are none.

By Mr. Sommerville:

Q. There is no inspection by any government official of the homes where they are packing those farmers' tomatoes?—A. That I cannot say.

Q. Is there? Perhaps we will learn that from the canners?—A. I cannot say.

Q. With reference to the home canners, I think we have the picture pretty well before us now. What do you say, on the basis of the prices sold last year, the growers would have received?—A. In what way do you mean?

Q. Under that home packing method of last year, on the basis of the prices sold last year, every grower under that Culliver and Leavens plan would receive how much?—A. From 35 to 40 cents per bushel.

By Mr. Young:

Q. Would they get any allowance for packing in addition to that?—A. That is included in everything. I think about half a cent a case, or one cent a case, would cover all charges.

Q. Do you mean they can peel those tomatoes and put them in the cans, cook them and so on, for half a cent?—A. To the best of my knowledge, yes. They are done quickly when they are being packed that way.

By Mr. Sommerville:

Q. Now then, the question of the contract came up. What was the result of the discussion of those contracts and the price of 25 to 27½ cents offered this year?—A. "Tomatoes— contract— hardship. 27½ cents to 25 cents. 175 bushel limit.

Q. That is a quotation from the minutes of the meeting?—A. Yes. "With farmers accepting such prices they have become so involved as result of relying on income from canning factory crops to the exclusion of other lines of agriculture endeavour, that they have no alternative—lack of live stock sufficient to carry on. Bankers admit enough contracts are handed over to the banks for collateral for money to carry on that growers of this calibre establish the price in the district. Banks suggest in case of delinquent patrons get a contract with canning company to clean up their indebtedness." The banks suggest that.

Q. With reference to farmers who are in debt to them?—A. To the bank.

Q. The bank suggests to them to get a contract with a canning company to clean up their indebtedness?—A. We know we cannot get money from the bank unless we have one of those.

By Mr. Factor:

Q. Do you know of an actual case where the bank did tell the grower who was in debt to the bank to go ahead and get a contract in order to pay that debt?—A. I can give particulars.

By Mr. Young:

Q. Is the contract with one of those canning establishment just as reasonable as the contract with Canadian Canners?—A. No; you have there a contract from the company that you are packing for.

Mr. Sommerville: You have a contract with the company you are packing for?—A. Yes.

By Mr. Young:

Q. Does it make any difference to the bank whether your contract is with the Canadian Canners or with one of the companies that allows you to can at home?—A. I do not think so; I would not say.

By Mr. Kennedy (Peace River):

Q. Does the bank collect the money from the canners?—A. It is a first mortgage on your crop.

Q. Any question about your getting a living out of it, for instance?—A. Oh, Lord, they do not allow you to live.

By Mr. Sommerville:

Q. At any rate, it is a first charge upon your crop?—A. Yes.

Q. Go on with your notes with reference to that.—A. "Prince Edward county wonderful example. Involving fertilizer and seed grain. How much credit allowed on a contract."

Q. You referred to the notes or minutes, and you say Prince Edward county is a wonderful example?—A. Yes.

Q. Of the plan of home canning?—A. Yes.

Q. And also of the plan of taking contracts to the bank?—A. Well, it is that way.

Q. I see it says "Involving fertilizer and seed grain." What is the reference to that?—A. They bought it co-operatively, and consequently can get a better price than can be obtained by the individual farmer, and another point on that—how shall I put it. The canning companies field man in some cases, we know, has the fertilizer agency, and he makes it a point that a man taking a contract for tomatoes from them must buy his fertilizer from them; and consequently they are paying anything from $6 to $11 a ton more than what they would otherwise be paying in buying through the regular channels.

By Mr. Factor:

Q. Is he acting in the interests of the canner?—A. No, not acting for the canner. The canning companies' field man, their representative, who goes out taking contracts—

Mr. SOMMERVILLE: For tomatoes? He is also a fertilizer man?

The WITNESS: Yes.

By the Chairman:

Q. Does he refuse to give a contract to buy tomatoes unless they buy his fertilizer?—A. They have refused to give acreages.

By Mr. Young:

Q. Have you ever reported that to the company?—A. No. It has generally been brought up in our meetings and discussed, the best way to go at these things. It is absolutely of no use for us to go at it and buck the fertilizer firms independently.

Q. If a buyer for a canning company is sent out by the company to buy tomatoes and refuses to buy your crop because you won't buy fertilizer from him, I should think the company would fire that man pretty quickly?—A. No, they don't refuse to buy the crop. They won't give us acreage. They go out in the spring of the year to take acreages. They have been asked by their company to get so many acres.

By Mr. Sommerville:

Q. They have been asked to get so many acres of tomatoes; that is to say, to contract for so many acres of tomatoes at 200 bushels to the acre?—A. Yes.

Q. That is the way the annual contracts are made?—A. Yes.

Q. And the field man is sent out to get this acreage?—A. Yes.

Q. Then you say when he goes out to get this acreage, the field man is also a fertilizer man. What happens?—A. If they don't buy his fertilizer, they don't get the acreage; that is all.

Q. At least, that is the feeling among the farmers?—A. It is, very much so. I think this can be vouched for, too, without very much trouble.

By Mr. Factor:

Q. Have you ever experienced that yourself?—A. No, I have no kick myself with the canners. I have always had mine go right in.

By Mr. Sommerville:

Q. You have had your acreage each year?—A. Yes. I am just fighting for the other fellow. It makes no difference with me, for that part. I have no kick whatever with them.

Q. We had an example—at least it was referred to in the brief yesterday—that sometimes when they take these contracts, they will just run for a certain number of days in the season, and then close down?—A. Yes.

Q. And those who have made contracts are out of luck; have you any examples of that?—A. I have.

Q. Referred to at this same meeting?—A. Yes, I have. One canning factory ran for ten days out of a season's run. One man—the names can be given to the committee of these—had 400 bushels per acre, on 4 acres, and not one tomato delivered.

Q. Although they were under contract?—A. Yes. I saw the contract. I may say just here, too, that I helped estimate that man's acreage after the factory closed down, when proceedings were going to be taken against them, a hardship on him. We used the factory field man's figures, and had an independent man come with me, quite a well-known man there, to count them, and we did the estimating ourselves. I was personally in on this.

Q. That man had 400 bushels to the acre?—A. On 4 acres.

Q. That is 1,600 bushels?—A. Yes, and not one tomato delivered.

Mr. FACTOR: Of course, that goes to the interpretation of the contract. If it is really only an option to buy as much as they want, there is nothing which forces them to take that.

By Mr. Sommerville:

Q. Did the case go to court?—A. No, it didn't go to court, but at the time it was going to court the canning factory owners came and offered him a cheque for $50. That $50 looked good to him just then—I guess he thought it was better than fighting—and he took it.

Q. He took $50?—A. Yes.

Q. In settlement of his loss?—A. Yes.

By the Chairman:

Q. Before we leave that question of fertilizer, and the agents of canneries acting as fertilizer agents, can you tell the committee how those agents are paid? Are they salaried officials of the cannery?—A. I think so, yes. In some cases I know they are.

Q. Fertilizer agents on the side on commission, I suppose?—A. They had a side line. I don't think it is right. I don't think it should be. We have discussed that at our meetings at different times, and I don't think it should be.

By Mr. Factor:

Q. What happened to that particular fellow's tomatoes?—A. Just wasted.

By Mr. Kennedy (Peace River):

Q. What would they be worth? What were they worth at the prices going on then?

Mr. SOMMERVILLE: 25 cents a bushel.

The WITNESS: They were contracted at 35 cents. That is 1931.

Mr. FACTOR: 1,600 bushels.

The WITNESS: 1,600 multiplied by 35.

By Mr. Sommerville:

Q. About \$500 or \$600, and he got \$50. What other examples had you under that?—A. The Associated Quality Canners cut a good load 60 per cent.

Q. Cut that load 60 per cent. What do you mean by cutting the load?—A. That means that if a load of tomatoes went in, say 100 bushels, all you would be paid for would be 40 bushels.

By Mr. Young:

Q. Why did they dock you 60?—A. Search me. They got plenty I guess.

Q. Were those tomatoes over-ripe, under-ripe or spotted? Was there any defect in them, in any way?—A. Not to my knowledge. It is just a matter of their system of doing business.

Q. You don't mean they will practically say, "You have 100 bushels; we are going to pay you for 40?"—A. By jingo, I have had them tell me they would take off 10 pounds of each crate, that they had got plenty. You don't know how much they have.

Q. You had them tell you they would take 10 pounds off each crate?—A. Yes.

Q. They had the right to do so under their contract?—A. Yes.

Mr. FACTOR: I can't sit here and believe these things, it is so shocking to me. I would like a little more information on that, Mr. Hunt.

The WITNESS: I will try and give you what information I can.

By Mr. Factor:

Q. Did you experience that yourself?—A. I have experienced the point myself where I have probably taken down 40 crates of tomatoes, and been paid for 30.

Q. What reason was assigned for that?—A. Well, if the season was rather poor, there would be no reason at all; but as the season was good, they were getting all they wanted.

By Mr. Sommerville:

Q. If the season was poor, they would take the whole 40 crates?—A. Yes.

Q. And pay for the whole 40 crates?—A. Yes.

Q. But if the season was good, and they were getting all they wanted, you say under their contract they would pay you for 30?—A. Yes.

Q. Is that because they would reduce the grade of your tomatoes?—A. No, I don't think that. That was the excuse they would put up, of course.

Mr. ILSLEY: That is what we want to know.

By Mr. Sommerville:

Q. That is the excuse they would put up, you say?—A. Yes.

Mr. EDWARDS: I think the witness ought to give the specific case which he is speaking of.

Mr. SOMMERVILLE: Yes.

Mr. Factor: Does he mean the company only purchased 30 out of the 40 crates?

Mr. Ilsley: They graded them down. Mr. Robinson said when they were plentiful they were severe in their grading, and when they were not plentiful they were generous in their grading and practically took them all.

The Witness: That is right.

Mr. Ilsley: It is a question of grading, apparently.

The Witness: That is it. And the canner is the grader.

By Mr. Sommerville:

Q. With regard to the tomatoes that were taken in your own experience, the 40 crates which were reduced to 30 crates, were they tomatoes which were all the grade required by the contract as first grade?—A. Most assuredly. If they hadn't been, they would not have accepted them, would they?

By Mr. Kennedy (Winnipeg):

Q. What became of your 10 crates?—A. Left there. We have nothing to say on that; presumably in the cans.

By Mr. Factor:

Q. You mean they took the 40 crates?—A. Yes.

Q. And only paid you for 30?—A. Sure.

Mr. Factor: Unbelievable.

Mr. Kennedy (*Winnipeg*): I think we ought to have particulars.

Mr. Sommerville: It is the same thing as reducing the grade.

The Chairman: Of course, the point this witness and other witnesses make is this, that under this contract the sole authority for grading or determining the quality of the tomato is the canning company, the buyer; that there is no arbitrator in between the grower or canning company whatever.

The Witness: No one whatever.

The Chairman: Then the inference is—or the charge, if you like to put in that way—that when tomatoes are plentiful canneries will deliberately degrade the tomatoes received; and the inference is that they do that for the purpose of lessening the cost of the goods they purchase, although the grower contends that the quality is not inferior.

By the Chairman:

Q. That is the story that you wish the committee to receive, is it not?—A. That is it.

Mr. Kennedy (*Winnipeg*): I think he has gone farther in this instance. He said he had an instance himself where he delivered 40 crates. The 40 crates were kept by the canning company, though he was only paid for 30.

The Chairman: That is right.

Mr. Kennedy (*Winnipeg*): I think we ought to have the details.

The Witness: I can tell of one more case, with your permission, right on my brief here.

By Mr. Kennedy (Winnipeg):

Q. Tell us about that?—A. Delivered Associated Quality Canners 80 crates, not weighed, rejected. Grower to come back to grade according to grader's instructions. These tomatoes were run and he was paid for 80 bushels, for a load of rejected tomatoes.

By Mr. Sommerville:

Q. That is a case you are giving us?—A. That is a specific case.

Q. That is a case that occurred in your district?—A. Yes.

Q. Where 80 crates were delivered?—A. Yes, brought in by the load in the morning, rejected. He asked permission to leave them on their platform while he had other business to see to. He came back in the afternoon to get those tomatoes, to take them home. He asked where they were. They were in the cans.

Q. And they had been rejected?—A. They had been rejected. Those were run, and he was paid.

Q. He was paid for them?—A. The full 80 bushels.

By Mr. Ilsley:

Q. They changed their mind about rejecting them?—A. Yes.

Mr. FACTOR: That is not as serious as your other allegation.

Mr. SOMMERVILLE: No.

Mr. FACTOR: I feel the same as Mr. Kennedy does, that it requires some explanation.

Mr. SOMMERVILLE: Let me get the explanation of this other one.

The CHAIRMAN: His own.

By Mr. Sommerville:

Q. In your own case, Mr. Hunt, do I understand your case to be that you took 40 cases of tomatoes in?—A. I brought so many 40 cases I could not give you this figure off-hand, till I went home and looked up my records.

Q. Well, approximately 40 cases?—A. Yes.

Q. You took those to the canner, under your contract?—A. Yes.

Q. Under the contract, if they were first grade, you would be entitled to receive how much for those tomatoes?—A. 35 cents per bushel.

Q. And instead of receiving 35 cents per bushel for the 40 cases, you received 35 cents per bushel for 30 cases?—A. Yes, approximately.

Q. Is that the situation?—A. Yes, that is the situation.

Q. In other words, they reduced the grade so that the net amount you got was equivalent to 30 cases at 35 cents?—A. That is correct.

Mr. KENNEDY (*Winnipeg*): No, that is not what he said

Mr. FACTOR: That is different.

Mr. KENNEDY (*Winnipeg*): He said they got 40 cases, and paid him for 30.

The WITNESS: That is the point.

Mr. KENNEDY (*Winnipeg*): Let us get it.

By Mr. Sommerville:

Q. That is, they paid you for 30 cases at 35 cents a case?—A. Yes, and got 40 cases.

Q. And got 40?—A. Yes.

Q. In other words, 10 cases were equivalent to the degrading?—A. Yes, that is right, or in their opinion what it was.

Mr. HEAPS: Did they pay so much a case?

By Mr. Kennedy:

Q. Is the argument that 10 bushels were unfit for canning? Is that the argument?—A. That is the argument.

By the Chairman:

Q. It is dockage?—A. It is dockage.

By Mr. Kennedy (Peace River):

Q. In your judgment, were there 10 bushels that were unfit for canning?—A. Oh, heavens no. I know I never picked that kind of tomatoes, and I don't know anyone that ever did. You may be as careful as you can, but there are some that will get by you. But I have always tried to do the square thing.

By Mr. Kennedy (Winnipeg):

Q. When did this incident take place?—A. 1931; September, 1931.

By Mr. Young:

Q. Coming back to the 80 bushels, or the 80 crates, on what grounds were they rejected? Because they were not fit for canning, or because they didn't need them?—A. Well, evidently they needed them, because they used them.

Q. But in the morning when they rejected them, did they say, "These are not fit for canning," or did they say, "We don't need them?" What reason did they give the man for not taking his tomatoes that morning?—A. That is not a personal case of my own. I have not got that. I can get it.

By the Chairman:

Q. Were they under contract?—A. Yes, under contract.

Q. When was that?—A. 1931.

By Mr. Sommerville:

Q. This was one of the cases reported to your association last month?—A. Yes.

Mr. Young: It is important that we should have that, because if they said, "These tomatoes are not fit for canning, we must reject them", and then canned them, that is a serious matter. If they said, "We can't handle those, we are filled up", and then they found they could handle them later in the day, that is a different matter.

The Witness: You have the name there, Mr. Sommerville.

By Mr. Kennedy (Peace River):

Q. Did he get the regular price for them?—A. Yes, and no dockage; paid the full 80 bushels, or 80 crates.

By Mr. Ilsley:

Q. There are number 1's and number 2's, I think Mr. Robinson said?—A. No, there are no grades.

Q. No grades?—A. Well, the grades the canners have got on the contract are better than our basket trade.

By Mr. Sommerville:

Q. The top grade?—A. The top grade. It is all that. You can't grow the crop of tomatoes they want.

The Chairman: You could not make anything much better.

By Mr. Ilsley:

Q. They either inspect them and pay you the one price for what they inspect, or reject them entirely?—A. Yes.

Q. There is no question of paying one price for the top grade and a lower price for the next grade?—A. I have never known that. If they have got that in your contract you can expect the lower one. I have never known that.

Q. It is a matter of either accepting or rejecting?—A. Yes.

Mr. SOMMERVILLE: He says it is simply a matter of taking so many pounds less.

By the Chairman:

Q. As a grower of experience, Mr. Hunt, can you consistently deliver to the cannery tomatoes described as follows:—

> Produce of all kinds must be strictly first-class in size, quality and condition; absolutely fresh, firm and clean and in the very best condition for the purposes required. Frozen, sunburnt, bruised, unsound, over-ripe, undersized and undeveloped specimens cannot be accepted.
>
> Tomatoes should be of the large, smooth red varieties, not less than $2\frac{1}{2}$ inches in diameter, solid, sound and clean, picked when red ripe and delivered fresh picked, free from stems. Rough, undersized, jammed, bruised, sunburnt or dirty tomatoes, or those partially ripe, green on one side or with yellow ends, will not be accepted.

Is it possible to deliver that class of fruit out of the ordinary crop?—A. You can't do it.

By Mr. Ilsley:

Q. Would it be all right if there was what we call a tolerance in the apple business? That is to say, if a certain proportion had to be that way, say 90 per cent, could you do that?—A. Yes, I think you could, but not anything approaching that price. You could not deliver them for $27\frac{1}{2}$ cents a bushel.

Q. We are not talking about price. The chairman was talking about whether it would be practicable to deliver that quality?—A. No, it would not be practicable.

Q. If there were a clause in there saying that 80 or 90 per cent have to be of that quality, would that be practicable?—A. I don't think that is in the contract whatever.

Q. No, it is not in there, but would it be practicable? In packing apples, they allow for a certain proportion to be not up to specifications, because a certain amount will slip in—and it is provided for in the regulations—no matter how careful you are. If you had something like that in the contract, would that be a fair contract then, so far as quality is concerned?—A. I think it would. If we could get grading, which we have been advocating for years—I think if we had grading put into effect, but not the factory, it would solve all our problems; so that we would have one or two grades, and be paid for whatever quality we put in. Now it is a flat rate; if we put in a good thing and you put in a bad thing, I have got to set up for what you have put in, under the present system.

By the Chairman:

Q. Your point is that such a standard is not a practical thing?—A. It is not.

Q. The next clause says this: "When any produce is not judged to grade first class according to contract,—or according to the preceding clause—a reduced price fixed by the company may be paid therefor, which must be accepted by the grower, or such produce may be rejected entirely." In other words, if you can't deliver what you say is an impracticable thing, then a price may be fixed by the company or the whole thing rejected. That is your contract?—A. That is it.

By Mr. Sommerville:

Q. That is what you call dockage?—A. That is what they do in dockage. I have never known a lower price put on.

Q. You have never known them to dock you by way of calling it a lower price?—A. No.
Q. The dockage is by way of weight?—A. That is right.
Q. So many pounds per bushel?—A. Yes, that is it.
Q. And that is equivalent to a dockage in price?—A. Yes.
Q. In actual practice that is the method that is adopted?—A. Yes.
Q. And the general method?—A. Yes.

By Mr. Factor:

Q. So that in your case, with the 40 bushels, they were of the opinion that they were not up to the quality as described in the contract, and they only paid you for 30 bushels?

By the Chairman:

Q. 25 per cent dockage?—A. Yes. That is not unusual.

By Mr. Sommerville:

Q. That is not unusual?—A. No.
Q. Is that an experience which your farmers have had frequently?—A. Oh, numerous times; quite a lot of it.

By the Chairman:

Q. You didn't take the trouble to watch and see whether those 40 crates went into the pack?—A. No, I am living 4 miles from the factory, and I always have my truck down. That was the report brought back to me about my tomatoes, and there also came back a few in the bottom of one of my crates, said that they picked that one, and that is how they got my dockage I didn't see them do it, so I can't dispute it; but I swear on a stack of bibles that I never did it, never picked such stuff. But that is all right.

By Mr. Ilsley:

Q. They sent back somebody else's, do you mean?—A. Well, the inference is that, anyway. If they got by me, I am a poor picker; that is all I know.

By Mr. Sommerville:

Q. You have dealt with the 80 bushels. What is the next complaint that was lodged at this meeting?—A. Another man had 23 acres contracted, 4,900 bushels in, 4 acres loaded, didn't get one bushel in. 7,000 bushels left on the field. Over-contracted practised by the company.
Q. What do you mean by that?—A. Well, I think most canning factories have an estimate on the crop of 200 bushels to the acre—something like that. They can figure it approximately, anyway. And they would contract enough acreage to get that, if that was in a poor year, to get their pack for that year. If there came an extra good year, or a really fair year, they would have more than their requirements.
Q. That is, the contracts covering the acreage would provide much more than 200 bushels to the acre?—A. They were making sure of their point, that they were getting their pack.
Q. And then you say in that way they are over-contracted?—A. Yes.
Q. Then when they are over-contracted, I think the statement was made that they are then strict in the grades?—A. Yes, they are.
Q. And that is when the dockage takes place?—A. It works to the detriment of the grower.
Q. That is when they restrict the amount that comes from the acreage?—A. That is right.

By Mr. Factor:

Q. How could a canning company tell, when they contract, what yield per acre there would be?—A. Well, they can't tell, nor can the farmer. He can't tell what he is going to have.

Q. You are complaining that it is a system of contracting per acre rather than buying so many bushels from each farmer?—A. Well, I think that would act in same way back on the farmer again, if he was contracting for so many bushels. Every year you can't grow a good crop, even if you are a good grower. So many factors come in. If you are tied down to 35,000 bushels of tomatoes, and you have not got them, then you are in the soup.

By Mr. Sommerville:

Q. If they contracted for the acreage, your contention would be that they take the good tomatoes from that acreage?—A. Yes.

Q. Even if it runs over 200 bushels?—A. They will in some cases, but they have that clause that they need not do it.

Q. That they need not do so, but sometimes they do?—A. Yes.

Q. Sometimes they do take more than that?—A. Yes.

By Mr. Factor:

Q. Suppose that, at the rate of 200 bushels per acre, they have already fulfilled their requirements. Do you expect them to buy more than they need?—A. No. They do do it.

Q. I know, but you complain that they don't buy in the good yield. You say they will only exercise their rights under the contract of buying up to 200 bushels per acre. What do you expect them to do if that gives them sufficient to fulfil their requirements for their pack? What are the canning companies going to do?—A. Well, my contention, and what we are trying to fight for, is for a living wage on the whole thing; and we can get a living wage if they would take the whole crop.

By Mr. Sommerville:

Q. But you can't get it if they limit you to 200 bushels an acre?—A. No, we can't do it. The facts speak for themselves.

By Mr. Edwards:

Q. Is there any way of keeping tomatoes for any length of time?—A. Not that I know of.

Q. In cold storage?—A. You could not very well, for the price paid, put anything in cold storage.

Q. Or picking them green and allowing them to ripen?—A. They won't allow that. The contract calls for them to be picked fresh and delivered fresh—to be picked when red ripe and delivered fresh.

Q. We had evidence here yesterday, I think from Mr. Robinson, that he shipped to Newfoundland, where they picked them under-ripe?—A. The basket trade does not affect the canning industry.

Mr. SOMMERVILLE: That is the basket trade.

By Mr. Young:

Q. In regard to the company's not taking the full crop, at what point do they stop? Is it at the point at which they can't sell any more, or the point at which they can't handle any more in the factory?—A. The point, I think, sometimes when they can't sell any more; when they have got about all they care to carry.

Q. Do they ever stop buying because they have all the factory equipment will handle?—A. Yes.

Q. They do stop then occasionally?—A. Yes. That is in their contracts; where you will find they are limiting to so many bushels per acre per day, it is when the tomatoes come in in a rush, and the factory can't handle them.

By Mr. Kennedy (Peace River):

Q. In the year of a good crop, do they try and buy a percentage over the whole of the contracted acreage or do they simply take what comes first to the factory?—A. They take what comes along until they get their requirements.

Q. They don't try to pro-rate their deliveries over the whole of their contracts?—A. No.

Q. So that everybody will get a chance at the same percentage?—A. No.

Q. It is a case of the fellow who is in first——A. He gets the preference, of course.

Q. He gets the preference, and the other fellow is left out?—A. Oh, yes, they can, and I have known them to shut down fairly early. I say fairly early. Their contract calls—sometimes contracts have been the last day of September. They need not accept any after that. Other times they want tomatoes, and they might run on till the 10th of October.

Q. You say you want a living wage. How much do you want for a living wage? How much do you need?—A. Well, at least it should be a flat run basis; in my opinion, 35 cents per bushel on a flat rate.

By Mr. Young:

Q. For the entire crop?—A. As many as are suitable for the factory. I don't want the canners to take anything that is not right. Just what is suitable for canning.

By Mr. Kennedy (Peace River):

Q. How many hours a day do you work? Eight hours?—A. Sixteen, usually; about that.

By Mr. Young:

Q. This brief we had yesterday said that some could get along with 35 cents, but others needed 50 cents?—A. That is higher land. I think my brief will give that, as well as Mr. Robinson's.

By Mr. Sommerville:

Q. That is, in some areas where the land is more expensive, close to Toronto? —A. Yes.

Q. The different elements?—A. Yes.

Q. In your district you could get along with 35 cents a bushel?—A. As a flat rate basis.

Q. For the good tomatoes that come off your acreage?—A. Yes.

Q. And not limit you to 175 or 200 bushels to the acre?—A. Oh, gee, no. What good is the agricultural board, if they are asking us and telling us all the time to grow better stuff and bigger crops, and get cut down like this?

Q. Encouragement is given to grow 500 and 600 bushels to an acre, is it not? —A. Yes.

Q. That is the whole program of the Department of Agriculture?—A. That is right.

Q. And when you do grow it—A. Get knocked down.

Q. Your contract is limited to 200 bushels by the canners?—A. It does not work together.

Q. What other cases had you reported at this same meeting?—A. Tomatoes just coming up to the best quality when shut off. That is referring to those two or three factories that closed down in 1931, in September. One man had 100 bushels left on the field. Another man had 200 bushels left on the field, packed in their crates. Not all canning companies are sinners alike. It is recognized that certain companies are now paying prices and buying tomatoes on grade and taking delivery of all marketable tomatoes—

By Mr. Young:

Q. That is preferable, is it? You like that better?—A.—which are at prices almost on a par with those asked by the committee representative of the growers, even in competition with low prices paid by other companies.

Q. You are satisfied with that way of dealing with it?—A. I think so. I think the majority of us would be, that is provided that the grader was not a government man or a factory man, but was paid half by the grower and half by the government, or by the factory, as the case might be.

By Mr. Sommerville:

Q. As long as the grading was not entirely in the hands of the company?—A. Yes.

Q. That is your point?—A. Yes.

Q. Then I observe that there are some comments in the brief about contracts, that corn contracts and pea contracts are being tacked onto tomato contracts?—A. Yes, they are, in a good many cases.

Q. What do you mean by that, and what is the objection to it?—A. Well, they know, a good many do, that with peas and corn,—it does not matter the price being paid,—they can't grow them at a profit. But to get two or three acres of tomatoes, although they are not growing them at a profit—that is beside the mark,—they must take an acre or two of peas or an acre or two of corn, to be able to get an acre or two of tomatoes.

Q. And you think that is an objection?—A. I do, yes. There is always a kick.

Q. There is a kick throughout the district?—A. Yes.

By the Chairman:

Q. Is there much of that sort of thing?—A. Quite a lot.

Q. Many of these demands made?—A. Quite a lot.

Q. Whether the land is suitable or not?—A. Yes.

By Mr. Factor:

Q. You mean when tomatoes were a paying proposition, that corn and peas were not paying, is that it?—A. Not at the prices being paid then. Corn, peas and pumpkins—it has been a long time since they have been paying.

By Mr. Sommerville:

Q. Then the question arises, or at least there was some reference in the brief to rejections of corn, and the contract giving the privilege of rejecting in an arbitrary way. Have you some evidence of that?—A. I can give the man's name to the committee, sir. Field man orders corn held back; then corn was too hard. Not one kernel delivered, in 1931.

By the Chairman:

Q. Is that the same as mentioned yesterday, or one of the others?—A. In that other brief—yes, I think so. Another man was turned down for three kernels of yellow corn in six ears, most beautiful corn; whole load and crop turned down.

Mr. Young: On what grounds?

By Mr. Sommerville:

Q. In the examination there were three yellow kernels in six ears?—A. And they are seeds supplied by the canner. That is one point. You have to buy your seed from the canner. You can't go to another house and buy your seed.

Q. That is, in order to get a quality and uniform type of corn, they supply the seed?—A. Yes.

Q. And when this seed was grown you say in this case the grading was so severe that this man's whole crop was turned down. The whole crop turned down, because on examination of six ears they found three yellow kernels?—A. Three yellow kernels.

By Mr. Kennedy (Peace River):

Q. There would not be the loss on this corn that there would be in the case of tomatoes?—A. No, there would not be that loss.

Q. It would keep indefinitely and could be fed to something else?—A. It could be fed to stock, and would not be that loss, but it is the injustice of the thing that we are bringing out.

By Mr. Kennedy (Winnipeg):

Q. You mentioned that growers must get their seed from the canners?—A. Yes.

Q. Is there any complaint as to the unreasonableness of the charges for the seed?—A. I have not heard anything that way, sir, no. I do not think they kick on that at all, but when they get their crop turned down from seeds supplied by the canners, through no fault of theirs, that is where the kick comes.

Q. It is because of the faulty seed?—A. Yes.

By the Chairman:

Q. That is not an uncommon thing?—A. No. Then, the canning company should not have turned down his whole crop for the sake of finding three kernels—

By Mr. Sommerville:

Q. You have to buy a considerable quantity of fertilizer. What do you say is your objection, if you have any, to the present system under which you buy fertilizer?—A. The only difference there is in the fertilizer firms this year that I can see at all is the colour of their price lists. I am a member of the purchase committee of the Northumberland county, and at our representative meeting in March we agreed to buy fertilizer from a Quebec firm. That was done in our meeting, everything sealed up. Two weeks after that, two or three of the committee had to get together and do something else because they were absolutely stopped from selling to us.

Q. The Quebec firm?—A. Yes.

Q. What was the price at which you were buying?—A. Oh, quite favourable. I did not think this was coming up, or I would have had data on that.

Q. Was it from the Co-operative Fédérée of Quebec that you were buying?—A. Yes.

Q. You say that two or three weeks afterwards they refused to sell? On what grounds?—A. I think there was pressure brought to bear, and therefore they could not sell in Ontario.

By Mr. Factor:

Q. Can you buy your fertilizer from the United States?—A. That I cannot say.

By Mr. Edwards:

Q. Have you ever tried to bring in the separate ingredients and make your own fertilizer?—A. I have mixed my own fertilizer for years, and this year I have got Old Country stuff and it is a dashed sight better, in my opinion.

Mr. FACTOR: Is there a duty on fertilizer?

WITNESS: No.

Mr. YOUNG: Yes, there is.

WITNESS: Not on the raw materials.

Mr. YOUNG: A duty on the mixed?

WITNESS: Yes.

Mr. FACTOR: What is the duty?

WITNESS: I do not know.

By Mr. Young:

Q. From what you have said about it, it seems to me that the home canning of tomatoes in particular is a very simple process?—A. Yes.

Q. Is the equipment necessary expensive?—A. No; equipment necessary for home canning costs, I think, around $200.

Q. What is to stop a man putting in his own plant and canning his own tomatoes?—A. His own family, sufficient help.

By Mr. Sommerville:

Q. Mr. Young asks what is to stop a man putting in his own equipment and canning his own tomatoes?—A. I do not think there is anything to stop him as long as he has sufficient family to do it.

Q. It is a question of having a family large enough?—A. Yes; the French could do it very easily down in Quebec.

Q. They cannot be easily raised?—A. It takes time.

Mr. YOUNG: How many is required?

WITNESS: Roughly, five.

Mr. YOUNG: Five?

WITNESS: Yes.

By Mr. Factor:

Q. Five is not a large family?—A. Not in Quebec.

By Mr. Young:

Q. Two or three together could rake up five?—A. Yes.

Q. If the investment is only $200, it seems to me you have an outlet or a way of escape from the canning combine?—A. If you have four or five families coming in like that, the $200 equipment would not do you. You would have to get a $700 or a $800 one.

Q. $200 plant will cover one family?—A. Probably eight acres, roughly.

Q. Eight acres. Could you not put in a plant at home with little help yourself the same as the canners do?—A. You would be a factory at once, then.

The CHAIRMAN: And you have to pay sales tax.

WITNESS: And there would possibly be friction between the families—I grow better tomatoes than you.

By Mr. Factor:

Q. As a matter of fact, those family canners have increased?—A. Tremendously.

Q. If they come along much more the canners would have to go out of business, and that will decide the issue.

Mr. YOUNG: Effective competition is developing with the canners?

WITNESS: Yes, there is.

Mr. FACTOR: The canners are there, and we cannot do without them.

WITNESS: Some families cannot.

By Mr. Edwards:

Q. Supposing a family or two families purchased equipment for canning. How many weeks in the year would they operate?—A. If they were canning tomatoes only, roughly seven weeks.

Q. They could can other things?—A. Peas, corn, beans.

Q. Taking that into consideration, how long?—A. They could run roughly five or six months.

Q. And the plant would be idle the other six months?—A. Yes.

By Mr. Kennedy (Peace River):

Q. How long have you been in this tomato business?—A. Twelve years—thirteen years actually.

Q. Were you doing pretty well up until the depression struck?—A. Well, I think so. I have made money growing tomatoes. I had no kick from the factory. I put in 400 or 500 bushels.

Q. What price did you get in the years 1929 and 1930?—A. Fifty cents.

Q. When did the price drop?—A. In 1931 I was getting 35 cents. Since then I have not grown any, but it has been down to 25 cents. This year it has gone back $2\frac{1}{2}$ cents, to $27\frac{1}{2}$ cents.

Mr. SOMMERVILLE: For the last two years it has been 25 cents, and now it is $27\frac{1}{2}$ cents?

WITNESS: Yes.

By Mr. Kennedy (Winnipeg):

Q. You have not grown any since when?—A. 1931.

Q. Have you grown any substitute crop?—A. Yes, I have gone in heavily for berries.

By Mr. Kennedy (Peace River):

Q. Is there any over-production of tomatoes in Canada?—A. I do not think so.

Q. You think there is a market, if it was well organized?—A. I think so.

Witness retired.

EARLE M. GROSE, called and sworn.

Examined by Mr. Sommerville.

Q. You are associated with the fertilizer business?—A. Yes.

Q. You were for some years manager of the Ontario Fertilizer?—A. That is right.

Q. That is a branch of the Canada Packers?—A. Now?

Q. It was formerly.—A. Harris Abattoir and William Davies.

Q. Later you were managing director of the National Fertilizer?—A. That is right.

Q. And you have been connected ever since with the fertilizer business, operating now as an independent?—A. As an independent.

Q. You have been asked to come here and give some evidence with respect to the allegations that are being made respecting prices of fertilizer and the existence of an association with uniform prices. Now, first of all, you have done a good deal of investigational work in the fertilizer field? -A. Yes, I did, for the province of Quebec in 1930. I was given a big investigational work there.

Q. You made an investigation for the province of Quebec and reported to the government of the province of Quebec upon the method of handling the fertilizer situation?—A. Right.

Q. In 1930. Since then the fertilizer situation in Quebec has been very much improved, apparently?—A. Well, I would hate to say so—I think it is.

Q. Are the prices of fertilizer lower in the province of Quebec than they are in the province of Ontario?—A. It would appear so.

Q. Is there an association of fertilizer manufacturers in existence in eastern Canada?—A. Well, I am not a member of the association, nor do I know the qualification of members. I believe there is an association in eastern Canada.

Q. Known as—A. The Eastern Canada Fertilizer association.

Q. What firms are in the association?—A. Well—

Q. Can you give me the names?—A. I do not think it is dark secret at all I think it is published. I am not informed as to the members in Quebec or the eastern provinces of Nova Scotia and New Brunswick, but I think possibly I can name some of them in Ontario.

Q. Who are the members of the association in Ontario?—A. Well, in Toronto you have Canada Packers, Limited.

Q. Yes?—A. You have Canadian Industries in Hamilton, Montreal and Halifax; and then in Ingersoll there is the National Fertilizers, subsidiary of William Stone Sons Limited, Wetts Fertilizer Products at Norwich, Norwich Fertilizer Sales; Canadian Fertilizers Limited, Chatham, Agricultural Chemicals, Limited, Port Hope. I think that covers about all.

Q. You have seen the price list of those firms?—A. Yes, I had the opportunity of perusing them.

Q. What do you say as to their prices?—A. I would say they have a uniform basis of figuring.

Q. A uniform price for their—A. Uniform schedule.

Q. For their various fertilizers?—A. That is right.

Q. Are these fertilizers standard fertilizers?—A. They are all registered under the Fertilizers Act, 1922.

Q. Fertilizer, in order to be sold, must be registered with the Dominion government?—A. As to its content, nitrogen, available phosphoric acid, and potash.

Q. Before any fertilizer can be sold, containing those ingredients, it must be registered?—A. Yes, it must.

Q. These are, then, the chief ingredients, nitrogen, available phosphoric acid and potash?—A. Nitrogen, available phosphoric acid and potash.

Q. Nitrogen provides for growth?—A. Yes, that is its function.

Q. Phosphoric acid to assist in maturity?—A. Right.

Q. And the potash, I understand, gives it a starchy or sugary quality? —A. Induces sugar content; for instance, in sugar beets.

Mr. Factor: Would there be a different fertilizer for the different soil types?

Witness: Different groups, different fertilizers for the different soil types.

By Mr. Sommerville:

Q. When you find a fertilizer described as 2-12-6—A. Yes?

Q. How does that read, what does it mean?—A. It means that fertilizer carries 2 per cent nitrogen, 12 per cent available phosphoric acid and 6 per cent of potash. That is the guarantee.

By the Chairman:

Q. What is the rest?—A. Well, it is like when you take a prescription to a drug store, you get so much of the medicine you are to take, and the balance is aqua add, which is water.

By Mr. Sommerville:

Q. Filler?—A. Filler. It might not exactly mean there is a filler—2-12-6 can be manufactured without filler.

Q. But there are fillers that are added to the fertilizer in addition to those three?—A. At times, yes.

By Mr. Ilsley:

Q. Are they ever manufactured without filler?—A. Yes.

Q. 2-12-6?—A. That is a fertilizer that is usually used as filler because it is one of the lower types of fertilizer.

Q. These are just the proportions of the three ingredients?—A. Yes. Mr. Sommerville, Mr. Chairman, I should like to explain to the gentlemen of the committee this. For instance, there is phosphorus, which is P_2O_5 available—I do not want to be technical.

Q. Neither do I want you to be technical, so we agree?—A. Phosphorus pentoxide is a colourless gas so you cannot give it to the plant in that form; therefore we must combine it with some other material to help it so that when it goes into the soil solution the plant will be able to absorb it. Therefore we sell 16 per cent superphosphate acid or 16 per cent acid phosphate as the grower usually calls it. In order to balance the content in every 100 pounds of acid phosphate there is 16 per cent available phosphoric acid, and the same way nitrate of soda, from which we derive nitrogen, which, Mr. Sommerville no doubt asked about.

Mr. Edwards: Apparently called that a filler?

Witness: No, it is not a filler.

By Mr. Ilsley:

Q. Is it a fact that your terms, for instance, in using this fertilizer, are based on filler?—A. Yes, it is in some cases, where the material—for instance, 2-12-6 may be made from materials which work out at 1,740 pounds of the actual fertilizer material used. Then, you can tell him he can use a filler of 240 pounds of sand or 240 pounds of lime, or 240 pounds of humus.

Q. Based on the particular use?—A. Yes. He is not charged for that. He is charged on the basis of the unit of phosphate acid and potash—

Q. In other words, aqua add does not come in there?—A. No.

By Mr. Sommerville:

Q. I have, for instance, the price list of the C.I.L. for the province of Ontario, for the spring of 1934 and a price list for the spring of 1934 for the Province of Quebec?—A. Yes.

Q. Both of them are called free flowing fertilizers, made in Canada by Canadian Industries?—A. Free-flowing is a local term.

Q. That is what?—A. All fertilizers should be free flowing if properly mixed.

By Mr. Ilsley:

Q. What does it mean?—A. It means it has been set up. It is a real term.

By Mr. Sommerville:

Q. Take 2-12-6?—A. Yes.

Q. I see in the province of Ontario, western Ontario, it is sold at $34.65 on this price list and in the province of Quebec at $25, or a difference of $9.35?—A. That is fortunate for the grower in Quebec.

By Mr. Ilsley:

Q. Could there be any difference in the quality or value of the material as a fertilizer?—A. I would say that a firm such as the C.I.L., their material would be uniform. Now, I do not operate in Quebec, but having done that investigational work down there, I might offer two or three reasons why the fertilizer may be lower, which might be enlightening to this committee. In the first place, they have a lower transportation cost. Their basis of supply of raw materials, nitrate of soda, superphosphate and potash they bring by boat right to Montreal or Beloeil or Quebec city. In the second place—

By Mr. Young:

Q. What is the source of origin of those things?—A. Well, you get superphosphate several places. Some is brought in from Holland, and some brought from Morocco. They generally bring superphosphate from Morocco. Morocco is the source of phosphate rock. I think there is some firm operating in Canada which are bringing their supply of phosphate rock, which is largely a sulphuric acid to make the superphosphate, which is the greater bulk of material used in the manufacture of fertilizer from Northern Africa. Now, you have two sources of potash. Potash comes from France and Germany. It was chiefly German potash; formerly before the war it was all German, but now that France got back Alsace they have got back some of their potash mines, and they get potash from both France and Germany. Then, we have another source at Searles Lake, California, which is a very wonderful form of potash, very high in K_2O.

Q. At any rate, that is the course of supply.—A. Yes. Then we have one more source, from Carlsbad, New Mexico. That is just being developed. We have another source of potash there.

Q. You say it may be because that is the source of supply and the materials come by boat to these places?—A. Yes.

Q. To Quebec? There may be a somewhat lower freight rate from the point where it is manufactured to the farmer?—A. Yes, but there are two other important points.

Q. Yes?—A. There are two co-operative societies in Quebec, the Co-Operative Fédérée, and the Catholic Union of Farmers. Now, they have a large enough distribution to establish a competitive retail selling price in the province of Quebec. This overlaps into eastern and northern Ontario on account of the French population in those parts, in Prescott county and northern Ontario.

Q. So that the price that refers to the province of Quebec also applies to the eastern part of Ontario?—A. Yes, and northern Ontario.

Q. And to all the northern part of Ontario?—A. Well—

Q. Rather, a portion.—A. You mentioned one price list. I know where a firm sold a carload of 4-8-10 to two stations west of Kapuskasing on the Grand Trunk Pacific, the Canadian National, for $35 a ton. 4-8-10 was listed in—

Q. 4-8-10 is listed in the province of Ontario at $41.55 and in the province of Quebec at—

Mr. Edwards: 4-12-10 is given at $41.10 in Ontario, and $28 in Quebec.

By Mr. Sommerville:

Q. 4-8-10 in the province of Quebec is listed at $28, but in the province of Ontario it is listed at— A. $41.55—

Q. Less \$2.—A. \$39.55. That was sold at the station I mentioned for \$35 cash. Now, then, there is another reason and the last. It is my own idea of why the price may be different. I imagine that superphosphate can be manufactured in Quebec considerably cheaper than it can be in Ontario. First, you will remember that superphosphate is manufactured by two firms in Canada, at Beloeil, Quebec, Hamilton, Ontario, and at Trail, B.C. Now, I think that their acid cost at Beloeil, Quebec, would be much lower than at Hamilton. I think that enables the manufacturers to manufacture superphosphate, which I said before is the bulk of the materials given in the manufacture of several fertilizers, at a considerably lower cost—

By Mr. Factor:

Q. Why lower?—A. There is sulphuric acid that they use, and it costs them less for treating the phosphate rock at Beloeil than it will at Hamilton—they have a more favourable contract, probably.

By Mr. Edwards:

Q. That would be the only reason?—A. That would be—

Q. Sulphuric acid is quite common, and purchased in very large quantities in many industries?—A. That is quite true, but the freight rates from the source of supply differ.

By Mr. Sommerville:

Q. Now, then, taking into consideration these three factors—by the way, most of the product is delivered to western Ontario, Toronto, Hamilton and Chatham by boat?—A. Yes.

Q. And from Montreal and Quebec?—A. Yes.

Q. Therefore that is a very cheap method of transportation. Taking all those factors into consideration, is there any justification for such a wide spread in the price between western Ontario and eastern Ontario in the price of those fertilizers. Take, for instance, 5-8-7. In Quebec, it is \$29.50 and in western Ontario \$40.40, a difference of \$10.90, which is more than 33 per cent. It is 33 per cent higher in Ontario than in Quebec and eastern Ontario?—A. No. If I were a member of the association, Mr. Sommerville, that is the first thing I would say, it is most unfair.

Q. Then, the next one, 9-5-7, is \$48.65 in western Ontario and in eastern Ontario and Quebec it is \$30.50, a difference of \$18.15, or 60 per cent higher in western Ontario than in eastern Ontario. Is there any justification that you can think of for that?—A. I do not think so. Not for that spread.

By the Chairman:

Q. Let me ask you this: If they were able to purchase in eastern Ontario they could buy it and ship by local freight, and still get it cheaper than at the list price?—A. The railway freight from Montreal to Toronto is 44½ cents per hundred L.C.L.

Q. You have a difference of \$18 a ton there?—A. Yes, but of course, accord-to arrangements, that would not be shipped. You have had an example.

Q. That is what I am getting at.—A. Yes.

By Mr. Sommerville:

Q. According to arrangements it would not be shipped. What do you mean by that?—A. I am taking the evidence of the previous witness. Mr. Hunt said he ordered his fertilizer from a firm, a certain firm, and on the Quebec basis, and he was saving money, purchasing lower than in Ontario, and consequently it was not delivered to him.

By Mr. Factor:

Q. Where do you operate?—A. West Toronto.

Q. Can you assign any reason for the spread between eastern Ontario and western Ontario?—A. I cited what the manufacturers' reasons may be. I think the co-operative Federee can buy enough superphosphate—

By Mr. Sommerville:

Q. Who are they buying from, the same companies? You gave the manufacturers supplying western Ontario. Now, are there not a lot of companies supplying Quebec?—A. No, I believe the C.I.L. have the Co-operative Federee contract, Canadian Industries Limited.

Q. Here is a price list of the C.I.L. and the Co-operative Federee of Quebec?—A. Yes.

By the Chairman:

Q. You are in the fertilizer business in Toronto?—A. Yes.

Q. The freight is what?—A. It is $4.80.

Q. A ton?—A. No, $4.80 L.C.L.

Q. $9 a ton?—A. Yes, $8.90 a ton L.C.L.

Q. Take a carload, what would it be?—A. A carload rate to Montreal is 24½ cents.

Q. A hundred?—A. Yes, $4.90 a ton.

Q. Now, you are in the fertilizer business in Toronto?—A. Yes.

Q. You can buy 9-5-7 in eastern Ontario, and deliver it, we will say, at Cornwall, or right down to Kingston for $30.50?—A. Yes.

Q. And you sell that in western Ontario for $48.65 or an advance of $18.15 a ton, and your freight would cost you $4.90; in other words, it would leave you an additional profit of $13.50 a ton?—A. Mr. Chairman, I might explain to the committee that I am in the fertilizer business. I am operating independently. All materials, and certainly lots of fertilizer which I import direct from the Old Country, which now comes into Canada free of duty.—I have an arrangement with a Canadian company for mixed fertilizers, but I cannot ship into eastern Ontario because I cannot get the fertilizer shipped.

Q. Would you mind sticking to my point, and never mind eastern Ontario for a moment. You are supplying fertilizer, presumably, to western Ontario?—A. Yes.

Q. You supply 9-5-7 for $48.65?—A. Yes.

Q. That is right, is it not?—A. Yes, $46.45 cash.

Q. Then, you can buy that at Kingston delivered for $30.50?—A. I cannot.

Q. Well, why can you not?—A. Because they would not sell to me.

Q. That is the whole point. Now then, I want to find out who are "they."

Mr. SOMMERVILLE: I suppose Mr. Grose says, Ask the other fellow.

Mr. ILSLEY: Members of this association?

The WITNESS: Yes.

Mr. EDWARDS: Who are they please?

The CHAIRMAN: Let us get them. Let us get at the truth.

Mr. FACTOR: Quit skating around.

The WITNESS: Members of the association.

By the Chairman:

Q. Now, wait a moment. Who are those firms? Suppose you were living in Cornwall or Kingston, and buying fertilizer?—A. Yes.

Q. Who would you buy 9-5-7 from at $30.50 a ton?—A. Canada Packers, Canadian Industries.

Q. Who else?—A. I do not know, whether the International Fertilizer of Quebec city would sell me at all there, but I imagine they would.

Q. Who else?—A. That is about all that operate down there.

Q. Those three firms?—A. Yes.

Q. But they won't deliver to you in Toronto?—A. No, not on that basis.

Q. At that price?—A. No.

Q. They positively will not do it?—A. No.

By Mr. Sommerville:

Q. The Canada Packers manufacture this at Toronto?—A. That is true, but they are supposed to have a factory in Montreal.

By the Chairman:

Q. Who are the biggest manufacturers of this fertilizer in the eastern section, Quebec section?—A. I would think Canadian Industries.

By Mr. Sommerville:

Q. And that is a branch of a United States company?—A. Well, of course, I don't know the set up of Canadian Industries. I understand that a certain percentage was held by Imperial Chemicals in the old country and Duponts in the United States.

Mr. FACTOR: Is that not a restraint of trade, if they won't sell it to them?

The CHAIRMAN: Of course it is.

The WITNESS: I will leave that for the legal men.

By the Chairman:

Q. The differentials to which you refer, namely freight and so on, are quite natural; no one can dispute that?—A. No.

Q. But there is no answer to this problem I put to you, other than that they won't sell?—A. No.

By Mr. Ilsley:

Q. What is the situation in the maritime provinces?—A. Well, I have been out of touch with that. The maritime provinces are a little more fortunate. They have been buying materials down there—they have been buying large quantities of materials direct from Baltimore. For instance, over on the island, Prince Edward Island, they have been buying direct from Baltimore and getting them in by the boatload.

Q. They import some fertilizer from Europe, too?—A. Yes, from Holland.

By Mr. Kennedy (Peace River):

Q. Are you the Canadian agents for some of these fertilizers?—A. No.

Q. Or do you buy?—A. We buy it. I have exclusively Humber Fish Manure. They call everything manure in the old country. All fertilizers are called manures. We don't.

By Mr. Sommerville:

Q. When you buy your raw materials for the manufacture of these, do you have to buy your raw material from these same firms?—A. Not necessarily. I don't. I am not like the grower.

Q. You have other sources of supply for your raw material?—A. Yes.

By the Chairman:

Q. All raw materials entering into fertilizer are free, under all headings?—A. No. I noticed yesterday that came up. Materials are free to the manufacturer. If the grower buys bag superphosphate, he is penalized 10 per cent.

By Mr. Sommerville:

Q. That is, the duty on bag superphosphate is 10 per cent?—A. 10 per cent.

By the Chairman:

Q. Superphosphate is classified as a manufactured article?—A. Yes.

Q. That is, if he buys it under the general tariff?—A. No. He can't bring it in. I am not sure on this point. It could be taken up with the Department of National Revenue. I think the people in the Maritime provinces kicked, put up a severe kick, and I think they got some bag superphosphate in there free of duty, but generally speaking there is a 10 per cent duty on bag superphosphate.

Q. But fertilizer compounded by the manufacturer is free under the British preferential?—A. Oh, yes. Pardon me. Yes, all British fertilizer is free.

Q. You can get this superphosphate from Britain free?—A. But it can't compete.

Q. With the American or German?—A. No.

By Mr. Ilsley:

Q. What is the situation about acid phosphate? Is that the same?—A. That is the same thing. We use the term interchangeably.

Q. That is dutiable at 10 per cent, is it not?—A. Yes.

The CHAIRMAN: And $7\frac{1}{2}$ per cent intermediate.

By Mr. Sommerville:

Q. That is manufactured in Canada?—A. Yes.

By Mr. Young:

Q. Is there not a ruling that if you use it for one purpose it is dutiable, and if you use it for another purpose it is not?—A. Well, it is rather clouded there. My opinion is it is rather unfair to have a 10 per cent duty on bag phosphate for the reason that the manufacturer could bring it in—if he so desired he could bring it in in bags, and he could claim it was for the manufacture of fertilizer. But it is probably unlikely he would attempt that. He probably would sell it to the growers, and he would have it free. That is the probability.

By Mr. Sommerville:

Q. That would be if he were dishonest?—A. Yes, but it is not likely.

Q. You are not basing any calculations on dishonesty?—A. No.

By Mr. Ilsley:

Q. Acid phosphate is used for this?—A. Where you have the green covering crops or manure, where you have plenty of nitrogen in the soil.

By Mr. Young:

Q. Is this largely a matter of interpreting the act by the officials of the department?—A. Yes.

Mr. ILSLEY: No, I don't think so.

The WITNESS: It would be. It could be done, as far as bag phosphate is concerned.

By Mr. Ilsley:

Q. I understood acid phosphate was dutiable, unless it came from a British source?—A. No.

Q. Acid phosphate, if it is used, of course——A. For fertilizer.

Q. —it is free?—A. It is free.
Q. Otherwise it is dutiable?—A. Yes.

Mr. ILSLEY: I don't think there is any question there, is there?

Mr. SOMMERVILLE: No.

By Mr. Sommerville:

Q. If it comes in in bulk, it is free to everybody, growers and manufacturers?—A. No, not to growers.
Q. Not to growers?—A. No.
Q. I understood if it was in bulk it was?—A. No.
Q. But if it was in bags— —A. If they can prove that it is for mixing purposes.
Q. Yes, if a farmer proves that it is for mixing?—A. Home mixing.
Q. For home mixing, it is free?—A. Yes, in bulk.
Q. In bulk?—A. Yes.
Q. But in bags?—A. It is 10 per cent.
Q. Will you tell me what the costs are of making this fertilizer, or mixing this fertilizer?—A. Do you mean the basis?
Q. How do you arrive at the cost of the 2-12-6?—A. Do you mean the manufacturers?
Q. What is the basis upon which the manufacturer arrives at the price or cost, or what is the schedule that is used?

The CHAIRMAN: The formula.

By Mr. Sommerville:

Q. What is the formula of arriving at that cost?—A. The prices that he would use this year run something like this: Nitrogen is taken at a cost of $1.75 a unit. That would be $3.50 for your nitrogen. Your available phosphoric acid is 65 cents a unit, which would be $7.80. Your potash is 75 cents a unit, which would be $4.50. Totalling that, you would find it cost you $15.80. You take 2 per cent shrink, which is legitimate, no question about that, 32 cents. Bags and tags, $1.50. I don't think that could be disputed. Factory is $2.
Q. What do you mean by " factory "?—A. Well, superintendence and mixing.
Q. Factory overhead?—A. Well, that is the mixing charge, and packing.
Q. Labour and handling and such?—A. Yes.
Q. At the factory?—A. Yes.
Q. The two?—A. Yes. That is $19.62.
Q. Then what?—A. Overhead.
Q. What does the overhead cover?

The CHAIRMAN: It covers a multitude of sins.

The WITNESS: Of course, I suppose that is depreciation on plants that have not been writen off more than twice, and so forth.

The CHAIRMAN: That is very well put.

By Mr. Sommerville:

Q. Yes, depreciation on plants and salaries of officials and such-like?—A. Yes, administration.
Q. Administration?—A. Yes.
Q. What is that?—A. $3.92.

The CHAIRMAN: That is pretty steep.

Mr. FACTOR: What is that for?

Mr. SOMMERVILLE: That is for overhead.

The CHAIRMAN: I think that is where you are covering a multitude of sins.

Mr. SOMMERVILLE: That is almost 22 per cent.

The WITNESS: That is for the committee to decide.

The CHAIRMAN: That is your figure. Go ahead.

The WITNESS: Totalling that, it will be $23.54. The average freight, $3.50. I think that is fair. I might point out that the prices as shown on these lists that you have there are delivered, Ontario points. Take for instance a manufacturer in Toronto who ships to North Bay a L.C.L., lot of fertilizer; he will pay 35 cents a hundred, that is $7 a ton—take the bitter with the sweet.

By Mr. Edwards:

Q. What is a carload lot to North Bay?—A. I have that here. It is 252 miles, I think, to North Bay. We get a mileage rate on fertilizer. 252 miles is $17\frac{1}{2}$ cents.

Q. Against L.C.L. of what?—A. $35\frac{1}{2}$ cents.

Q. Double?—A. Yes. That makes a total of $27.04. Your profit is 10 per cent, $29.74.

By the Chairman:

Q. Which one are you looking at?—A. 2-12-6.

By Mr. Factor:

Q. What does that sell at?—A. I am not through yet.

Mr. SOMMERVILLE: He is going to add on something for profit.

The WITNESS: You have $29.74. In order to arrive at the price you have to add $2 a ton carrying charge,

By Mr. Sommerville:

Q. That is for time?—A. That is for time.

By Mr. Young:

Q. What time do you give for that?—A. That is October 1.

Q. That would be six months?—A. Yes.

Q. Pretty stiff interest, is it not?—A. Well, your hazard for non-collection. That is $31.74. Have you all got that? In order to arrive at the retail selling price, the agent's commission of 10 per cent, and 1 per cent for spot cash—the agent pays spot cash—or 11 per cent to be accounted for has to be taken into consideration. Therefore you divide that $31.74 by 89.

By Mr. Young:

Q. You allow the agent 1 per cent for paying cash?—A. Yes.

Q. But you make the farmer pay it?—A. Yes. I didn't set this.

Q. Or add it to the price?—A. That is the schedule, I didn't set it.

Mr. SOMMERVILLE: Just let us get this figure. I know what is being worked on, and I think you will get what you want.

Mr. FACTOR: This is a reverse policy.

By Mr. Sommerville:

Q. This figure is now considered as being 89 per cent of the retail price?—A. Of the retail selling price.

Q. Then when you make this 100 per cent, what is the retail price?—A. It figures out at $35.70, but the nearest nickel is $35.75.

By Mr. Factor:

Q. You add 11 per cent to $31.74?—A. It does not work out just that.

Mr. SOMMERVILLE: A little more. If this figure represents 89 per cent, you bring it up to 100.

Mr. FACTOR: Divide by 89 and bring it up to 100.

The WITNESS: You are all in on the secret.

Mr. SOMMERVILLE: Well, the basis.

The CHAIRMAN: Oh, no, we are not.

Mr. SOMMERVILLE: Not yet. You say there are these time prices.

The CHAIRMAN: That runs about 30 per cent.

By Mr. Sommerville:

Q. This fertilizer is sold through farmer agents, is it not?—A. Well, implement agents, farmer agents, anybody who has credit standing sufficient to pass the credit department.

By Mr. Factor:

Q. What about canners' agents?—A. Well, I suppose they might be classed —canners' representatives as was mentioned in the evidence previously—yes, I suppose so.

By Mr. Sommerville:

Q. Is it not a fact that the companies require these agents to assume the liability for all the collection, and guarantee the same?—A. Well, in the majority of cases I would say yes.

Q. So that an agent has to take the hazard of the collection?—A. Yes. Of course, then the company takes the hazard of his paying.

Q. They take the hazard on the agent?—A. Yes, on the agent.

The CHAIRMAN: They reduce it.

By Mr. Sommerville:

Q. They reduce their hazard from the large number of farmers to the limited number of agents?—A. The eggs are not all in one basket; that is right.

By Mr. Ilsley:

Q. Do they take bonds or get someone else to sign an agreement of indemnity against loss for their agents?—A. You mean credit insurance?

Q. I didn't just mean that.

By Mr. Sommerville:

Q. Are the agents bonded to the government?—A. Not that I know of.

Q. Or do they put up a deposit?—A. I think the cost of doing that would be prohibitive.

By Mr. Ilsley:

Q. Do they get their father or brother or someone to sign for them?—A. Oh, they sometimes get their wives, when their property is in their wives' names.

By Mr. Sommerville:

Q. They are sold on an agency basis, and you have told us that is sold on a 10 per cent commission basis?—A. Yes.

Q. Is that 10 per cent paid immediately that the sale is made?—A. No, there is 5 per cent of it, in mixed fertilizer, that is retained.

Q. Five per cent of it?—A. Yes.

Q. That is to say, 5 per cent is paid at the time?—A. Yes

Q. And the other 5 per cent is retained?—A. As a good behaviour guarantee.

Q. That is retained for good behaviour. We are learning a lot of things in this business. What do you mean by a good behaviour guarantee? When is that paid or under what circumstances?—A. Well, it is paid on July 1st.

Q. On July 1st?—A. Following the date of the sale, if it is not later than July 1st.

Q. Then the agent may pay spot cash and get an extra 1 per cent discount or commission?—A. Yes.

Q. If he pays spot cash, does he not get his entire 10 per cent at that time?—A. No, that is retained, 5 per cent is retained by the company selling it.

Q. That is, 5 per cent of his own money is retained?—A. Yes. I think that must be there in a trust account or something.

By the Chairman:

Q. It is a sort of disciplinary measure?—A. It might be termed that, Mr. Chairman.

Q. To keep him under control?—A. Yes.

Mr. Young: Does he get interest on that?

Mr. Factor: Something like the reserve of the tobacco manufacturers.

The Witness: You get it back, but get no interest on it.

By Mr. Sommerville:

Q. Then if the agent gets 1 per cent, he gets 1 per cent for paying cash?—A. Yes. If he paid his cash, that $2 a ton would not be applicable. He would get $2 a ton less.

Q. He would take the hazard of the farmers?—A. Yes.

By Mr. Factor:

Q. Are these figures that you cite to us from the people that are in the fertilizer association?—A. I believe that is the schedule they use in figuring these costs.

Q. What about yourself as an independent? Do you base your price on a similar structure?—A. When I sell mixed fertilizer I am obliged to.

By Mr. Sommerville:

Q. You say that you are obliged to. Why should that be?—A. Well, I depend on them.

Q. You depend on some of these firms?—A. For mixed fertilizer.

Q. And for some of the materials that go into these?—A. Not so much the materials, no.

Q. But for the mixed fertilizer?—A. Yes.

Q. I have here something called "Agent's rules and regulations for the spring season of 1934." Do you know what that is? Have you seen anything similar to that?—A. Well, I think that is much along the same line as I have been outlining here. It is instructions to fertilizer agents concerning bonuses and the like. That is a point I would like to bring up here. There are bonuses.

Q. Let me identify this. These are instructions to agents, and rules and regulations for the spring of 1934, for the sale of fertilizers by these members of the association?—A. Yes.

The Chairman: Are you putting that in?

Mr. Sommerville: Yes, I will put that in as an exhibit.

(Agent's rules and regulations filed, marked Exhibit No. 182.)

By the Chairman:

Q. There is just one point here. You have three items that enter into this product. There is nitrogen, acid phosphate and potash?—A. Yes.

Q. You fix a unit figure for nitrogen of $1.75; for acid phosphate, 65 cents, and for potash, 75 cents?—A. Yes.

Q. What do you base those figures on, the cost of material?—A. The cost of the material, average cost of materials used as a source of nitrogen. You might, for instance, derive your nitrogen in one case from ammonium sulphate, or you might derive it from nitrate of soda, or you might derive it from a combination of nitrate of soda and sulphate of ammonia; or you might derive it from three sources. You might have an organic source, packing house byproducts.

Q. What I am getting at is this: How can you satisfy the committee, for instance, that the price of $1.75— —A. That $1.75 is a fair price?

Q. Yes?—A. Take sulphate of ammonia. Suppose it cost the manufacturer, in carload lots, $30 a ton. Say it analyzed 20 per cent nitrogen. That would be $1.50 a unit.

By Mr. Sommerville:

Q. Is that an average?—A. That is an average.

Q. Is that average a reasonable one?—A. Yes.

By the Chairman:

Q. What I am getting at is that in your set up here you have got a lot of items, and I am not disputing them. But it looks to me as if you had protected yourself perhaps with a profit in each of these items which would not be out of the way, but after all, when we are getting at the rock bottom of things, it is good to know?—A. Well, Mr. Chairman, I want it clearly understood before this goes to the press that I didn't set this schedule. I don't want it to go out that I did.

By Mr. Sommerville:

Q. You don't want it supposed that these are your costs?—A. No, not that they are my personal costs.

Q. No, but they are the basis of the schedule by which these prices are arrived at?—A. Yes.

By the Chairman:

Q. That is precisely what I am getting at. Therefore these figures of $1.75, .65 and .75 may in themselves show a profit?—A. They could, yes. I want to be perfectly fair. I don't think that acid phosphate at 65 cents can show a profit, because I think the manufacturers of superphosphate to-day are taking a licking on superphosphate. It is the sugar in the fertilizer business.

Q. But the other two may show a profit?—A. It is possible. The nitrogen, I think, might show a profit, but I don't think available phosphoric acid could show much profit.

By Mr. Factor:

Q. You say "show a profit." Do you mean that the cost is set at a high figure at $1.75? Is that what you mean?—A. Yes.

The Chairman: Yes, they use this as unit basis upon which they figure the cost of the ultimate article.

The Witness: Some of the large manufacturers can purchase nitrogenous materials at a lower figure than $1.75, yes.

By the Chairman:

Q. You charge an overhead of 20 per cent; you charge a profit of 10 per cent?—A. That is the charge, yes.

Q. A profit of 10 per cent?—A. Yes.

Q. And then when you get to the last of it, you divide by 89. That means that up to that point you have 89 per cent?—A. Of your retail selling price.

Q. So that between 89 and 100 per cent of the retail selling price comes what?—A. The agent's 10 per cent, and 1 per cent for paying spot cash.

Mr. Young: That is $12\frac{1}{3}$ per cent. It is not 11.

Mr. Ilsley: Advanced on the $31.

The Chairman: But you have got to figure on the retail price.

Mr. Sommerville: It is really $3.96 actual cash advanced upon the $31.74.

By the Chairman:

Q. What are your losses generally, by and large; what is the percentage of bad accounts?—A. Well, I remember in the packing house business they used to say if you had—they used to count on, in the meat end, one-tenth of 1 per cent. But in the fertilizer end the proportion was higher than that, say 1 per cent.

Q. How much higher?—A. Say 1 per cent.

By Mr. Factor:

Q. You charge $2 for the time price?—A. Yes.

By the Chairman:

Q. That $2, for the time it is out, amounts to about 30 per cent?—A. That is what I have always contended to the grower, that he should go to the bank; and if his credit is any good at all he can save a great percentage by buying for cash.

Q. He could only save 1 per cent by buying for cash?—A. Why?

Mr. Factor: He can save $2.

By the Chairman:

Q. They take $2 off as well?—A. Yes.

Q. If he paid cash he would get the $2?—A. Yes.

By Mr. Sommerville:

Q. What is the farmer's cost if he adopts the popular method of rolling your own—mixing his own? Does he save substantially by that?—A. Yes, he does. It all depends on the location. Some localities are situated more favourably than others regarding the importation of materials, for the delivery costs of the importation of materials. For instance a grower in the Niagara peninsula would be more favourably situated than a grower up around Muskoka or some place like that. I would say to be fair with the grower, to the manufacturer of fertilizer, that 2-12-6 fertilizer, the bare material cost would be approximately $22. That is the bare material cost. That is nothing for mixing or anything else.

By Mr. Kennedy (Peace River):

Q. How do you mix it, with a shovel?—A. It all depends. You see, the question will be raised, no doubt, that home mixing does not give as well or completely balanced a mix as mechanically mixed fertilizer, and one which has been stored, mixed and cured, so to speak. But if he uses ammonium sulphate, superphosphate and potash, and uses it quickly—what I mean, if he mixes it up

to-day and does not wait for a week to allow any set up, it should work out all right. He could not use any mixture. He could not use cyanimide and sulphate of ammonia because you would have a chemical reaction.

Q. It just about ruins his health to handle the stuff, in mixing it, it is dusty?—A. Yes, it is not the most pleasant thing. There is a little dust. There are a lot of things worse. I would rather mix fertilizer than stand in front of a blower or in front of a threshing machine in a head wind.

By Mr. Young:

Q. He has got to know something about these things, has he?—A. Yes. The Department of Agriculture here issued a home-mixing guide in 1928. I have a copy of it, and it says, "The farmer is competent to mix fertilizer at home if he understands the above calculation." It was a very simple one, too.

By Mr. Sommerville:

Q. Is there any difficulty about his getting the necessary materials, or do they come from the same source?—A. There was a case cited yesterday, and I would like to take that one case up. That was a buyer at Burlington who wanted to buy a carload of nitrate of soda. I didn't see this man, but the evidence has been produced. This grower wrote down to New York, to the New York brokers who handle nitrate of soda. He could not get a price because he was not in the category of a mixer, and he had to buy that through a west Toronto firm, and I understand it cost him $2 extra a ton. He had to buy through Canada Packers. I don't know why he should not have been able to buy that.

By Mr. Kennedy (Peace River):

Q. He was not in the category of a mixer?—A. Yes, a dry mixer.

By Mr. Sommerville:

Q. You say there may be handicaps?—A. There may be handicaps.

Q. Handicaps in the way of the grower getting them direct from the source of supplies?—A. Yes, there may be.

The CHAIRMAN: Thank you, Mr. Grose.

Mr. BELL: There is a gentleman here who says he has to go away to the farther part of Ontario, and wants to know if it possible to have a sitting this afternoon.

The CHAIRMAN: No, we are not having a sitting this afternoon. The committee will adjourn until Monday morning at 11 o'clock.

The committee adjourned at 12.55 p.m., to meet again on Monday, May 21, at 11 a.m.

HOUSE OF COMMONS, ROOM 368,

May 21, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 a.m., the Hon. H. H. Stevens presiding.

Mr. Norman Sommerville, K.C., of Toronto, appeared as counsel for the committee.

The CHAIRMAN: Order, gentlemen. The minutes of the last meeting contain a record of the witnesses heard, and two exhibits filed. I will declare them approved.

Mr. SOMMERVILLE: The first witness to be called is Mr. Craise.

H. L. CRAISE, called and sworn.

By Mr. Sommerville:

Q. Mr. Craise, you are engaged in the fruit growing industry?—A. I am.

Q. And have been for a number of years?—A. All my life.

Q. Located in the Niagara peninsula?—A. Near St. Catharines.

Q. You have been associated with the various efforts made to market the product of the fruit farms in the Niagara peninsula?—A. Yes, I have.

Q. In connection with that, you have had considerable experience in your dealings with the canning companies that use fruits in canning?—A. Yes, I have.

Q. Will you be good enough to give the committee the benefit of your information and observations as to the problems of the growers which you desire to have presented to the committee——A. With the Chairman's permission, I would like to explain a few things to the committee which I think were overlooked on Friday—not overlooked, but not explained. The question was asked by the committee, " How can the farmer continue to sell tomatoes below cost?" I submit, sir, that he cannot forever. The point we want to bring out at the moment is how he is doing it. I would like to paint a word picture just for a minute. In my own district, between the lake and the escarpment, probably two and a half miles, is a very intensive area of fruit and vegetables, back of which escarpment is a dairy country. At least 5,000 tons of manure have been sold by those farmers to the fruit and vegetable farmers during this last winter. Any person that knows anything about farming knows that a farmer who sells the fertilizer off his farm is courting destruction. But in order to get cash, and in order to get money to live on, he is forced into this position.

By Mr. Young:

Q. That is the dairy farmer who is selling the fertilizer?—A. That is the dairy farmer. Let us take this county, Northumberland county, where they have not an outlet for manure to the other farmers. He is subsidizing, to my mind, the canning industry, by selling tomatoes in which he puts a large percentage of his labour and the manure from his farm, at below what could reasonably be named as the cost of production, including the cost of manure and

labour. He is selling, at the moment, below cost that would ordinarily be computed, and giving in that product part of his manure and part of his labour for nothing.

Q. He is the man that is buying the manure?—A. No, he is not buying it. He is producing it. He is the ordinary farmer growing the odd acre of tomatoes, four or five acres of tomatoes, but he has on that farm a dairy herd.

By Mr. Edwards:

Q. This is Northumberland county?—A. Yes.

Mr. Sommerville: Mr. Craise is referring to the conditions in the Niagara peninsula where one group of farmers are selling manure off their farms to vegetable growers and fruit growers. Now he transfers that same situation to Northumberland where they have not the same situation and do not sell manure.

The Witness: They don't sell the manure. They put it on their crop. They put it on the tomatoes, and sell the tomatoes below cost, and they do it in this way, and continue to keep going.

By Mr. Sommerville:

Q. That is so as to get cash to carry on?—A. To get cash. It is a cash crop, about the only cash crop they have in that district; that is, these canning crops. I am going to leave that picture for a minute.

By Mr. Senn:

Q. Mr. Craise, before you leave that, I suppose you have heard it said, as other farmers have heard it said, that if you were to estimate the cost of production on the farm in the same way as it is estimated in other industries, by charging a reasonable amount of depreciation, interest rates and labour cost and all the rest of it, you could not find any phase of farming operations that would show a profit?—A. I would not say that, no.

Q. That is an old adage?—A. I know. That is quite possible. But I would like just to prove my statement. That applies on tomatoes, I will grant you, at the moment. But to prove my statement, or my contradiction of that statement, I will take the asparagus situation. Now, this last year we have had reason, due to the lowering of prices of asparagus, to go into the cost of production very carefully. A group of growers were appointed at a meeting in Hamilton, a fruit growers meeting in Hamilton, to do that very thing. We took a price set-up that would cover the time that the asparagus is coming into production—just about three years—carrying over a period of twelve years of production, putting the whole thing on a business basis. It will cost 9 cents a pound, based on a ton to the acre, to produce asparagus. The asparagus crop over the province this last year was 1,500 pounds, an average crop.

By Mr. Sommerville:

Q. To the acre?—A. To the acre. On the other hand we have growers who will produce probably twice that amount. So, in order to show a fair picture, we took a basis of a ton to the acre. At 9 cents a pound that is $180 an acre for cost of production, without depreciation or allowance for manager.

Now, to corroborate that price set-up, we asked the agricultural college in Guelph to produce, for our benefit, a price set-up on asparagus. Their price set-up, with the cost of production based on 20 cents an hour for labour, was $179 per acre; so we felt that, in producing a cost set-up of $180 per acre, we were very, very near the mark. To answer your question, a few years ago—1928, I think, and up until 1930—asparagus sold for 14 and 15 cents a pound from the grower, which as you can readily see was a profitable proposition.

By Mr. Young:

Q. What year was that?—A. That was 1928 and 1929. Now, let us see what happened in those years. A gentleman who sat in this room—I refer to Mr. Lowery of St. David's—was sent out by the canning interests. I expect it was the Canadian Canners, because he is employed by them, but it might have been supported by the canners. He went through our district telling the growers there was an unlimited market for asparagus, advised them to plant it, and it was done. Now, it takes three years for an asparagus crop to come to maturity, and it is really not at maturity then, but it comes to its first production in three years. It will then go on and increase its production probably for the next four or five years. You can see that from 1928 to 1934 is six years. Last year we had a fight to get 10 cents a pound for asparagus.

By Mr. Senn:

Q. Because of overproduction?—A. The increase in production has made it so that the market—that is the basket market—would not absorb the quantity without the canner entering the picture.

The CHAIRMAN: What year did he tell you that?

Mr. SOMMERVILLE: 1928-29.

The WITNESS: Yes, just in there, at that time.

By Mr. Senn:

Q. Did importations have anything to do with that?—A. Which is that?

Q. Did importations, early importations, have anything to do with the overproduction or oversupply?—A. Well, we have been fairly well cared for in early importations, inasmuch as the government have seen fit to assist us during the season in which we have the product for sale. Before that the asparagus comes in practically free of duty, when we have not it to offer. When it comes in, we are fortunate in having a sufficient duty put on to more or less assist us. This does not raise the price, generally speaking, to the consumer. It may for a day or two, but the crop comes on fast enough that the consumer gets asparagus at a very reasonable price, even although duty is applied to foreign asparagus.

By Mr. Young:

Q. Has there been any falling off in demand?—A. For what?

Q. Asparagus?—A. The raw product or canned?

Q. Raw—either one.—A. No, I would say the raw product is being more freely used to-day than it was at the time I speak of.

Q. The market is greater then for the sale of these extra acres?—A. Yes, I think so; because it is a product, like any other product that is being produced, that is a good, palatable product, one that is a health-giving product —naturally as long as the price is not too high, it is one that the consumption increases on.

By Mr. Senn:

Q. Don't you think your argument goes to prove that statement that I made, that sooner or later prices get down to a place where the cost of production is higher than what you realize?—A. Well, that is possibly the case if you carry on long enough. I don't think there is any doubt about that.

By Mr. Sommerville:

Q. With respect to the asparagus situation following the suggestion that you should increase your acreage, when that was increased and your crop came into bearing, then the price was dropped substantially from 14 cents to what? —A. Well, it started—it came down from 15 to 14, then to 12 and 11, and last year to 10.

By the Chairman:

Q. That is for canning purposes?—A. That is for canning purposes.

By Mr. Sommerville:

Q. You are not now referring to the basket trade?—A. No, I am not referring to that at all.

Q. Then, what happened with reference to the asparagus situation this year? Just follow that through?—A. Well, to give you a proper picture, I would have to go into the situation last year that developed, what we did last year, due to forced conditions. We formed an asparagus association. At our first approach to the canning industry, we were informed that American asparagus would be laid down in Canada, due to forced labour conditions—I should not say forced labour, but cheap labour conditions—at a price below which we could not expect to get 10 cents a pound.

By Mr. Heaps:

Q. Do you know anything about labour conditions under which asparagus is produced in the United States?—A. Not personally, no.

By Mr. Factor:

Q. Where is it grown?—A. In the southern states.

By Mr. Senn:

Q. May it not possibly have been the clean up of their fields?—A. Well, of course that is a possibility. I am not prepared to say that under oath. I am only giving my opinion. The canning company with which we negotiated, Canadian Canners—and I would say they gave us every assistance to get a proper perspective of the situation—gave us a contract for 100 tons of asparagus, based on two prices, a price of 8 cents if no further protection was afforded, and a price of 10 cents a pound if that protection was forthcoming. When we approached the government, the government said, "That is all right, so far as it goes." And they were perfectly justified in this claim, that if this is to apply, all canners must pay the price for asparagus. If this is to be done for the grower, the grower must get it. We held a meeting with the canners, and they agreed to that proposition. Unfortunately some seemed to be of the opinion that their word didn't mean a thing to the government or to anybody else, and there were only two that actually fulfilled that agreement. Canadian Canners bought their 100 tons. Their claim is that to help the growers out, some of them offered their asparagus at below 10 cents a pound, and they accepted the grass and paid for it on that basis. However, the fact remains that over and above 100 tons they did buy asparagus at 6, 7 and 8 cents a pound, which naturally brought their average down somewhat, probably not a great deal, but it brought it down below the price paid by the man who actually stood by his guns and paid the 10 cents a pound all the way through.

Now, this year a similar arrangement has been made. Due to further organization the whole province, so far as I know, is getting a price of 10 cents a pound. As was referred to the other day, one canning company did try to slice a little off the end of the asparagus and get the tips cheaper, but I believe since that time, they have come into line.

By Mr. Sommerville:

Q. What is the effect of that slicing that was referred to the other day, that the grower is to have 10 cents for?—A. It is on 6 inch grass.

Q. 6 inch grass?—A. Yes.

Q. And 6 inch grass weighs more than 5½ inch grass?—A. Yes, quite properly.

Q. Then one of the canners went out and tried to get 5½ inch grass for the 10 cents?—A. Yes.

Q. Which meant that half an inch of the grass had to be taken off the heavy end?—A. For which the grower paid.

Q. The grower?—A. Yes.

Q. The grower got no allowance in that respect?—A. No, but I believe since that day, since our inquiry opened, that matter has been rectified.

Q. Since the inquiry opened last Friday?—A. Yes.

Q. Or Thursday, rather?—A. Thursday.

Q. That canning company is paying 10 cents for 6 inch grass?—A. Yes, that is my understanding over the week-end. We are recommending,—if you care to get any recommendations that we have, to get this picture properly, to get this set-up right,—that there should be a price to the grower, based on proper cost of production, to give him a decent living. Now, to enlarge on the statement made by Mr. Drynan, that they took this asparagus to help the grower out, my claim is if they don't want this asparagus, they should not buy it at any price. If I want a tractor, I go and buy it, and pay for it. If I don't want a tractor, there is no man in the world that can sell it to me. If the canner doesn't want that asparagus, he should not buy it, that is all; and I don't think, if he didn't want it, that he would buy it, as a matter of fact. However, that is the statement that is made.

Q. However, you are referring to last year's arrangement?—A. Yes.

Q. That they were to take 100 tons?—A. Yes, and said that was all they needed, at the conference which I referred to.

Q. And because that was all they needed, the price was fixed at 10 cents a pound for 100 tons?—A. Yes, and any other quantity produced.

Q. And you say subsequent to that, all of the canners agreed?—A. They agreed at this one conference—they all agreed to pay this price, but some didn't pay it at any time.

Q. At this conference they agreed to pay this price, and that was to be for their needs?—A. That was to be for their needs.

Q. And they estimated their needs at 100 tons?—A. No, you have got the picture wrong. The Canadian Canners bought their 100 tons, but the other canners agreed to buy what they needed on the same basis; and that was the only way the government were justified in giving us any reasonable protection at all.

Q. Following this arrangement, the government did provide some protection for you, in order that you might have a price of 10 cents a pound for your asparagus?—A. Yes.

By Mr. Factor:

Q. What was the dump duty that was placed on it?—A. I think 3½ cents a pound. That is the basis of value for duty.

Q. Was there an agreement signed between the growers and canners, including Canadian Canners?—A. There was an agreement for 100 tons, to purchase 100 tons.

Q. By the Canadian Canners?—A. By the Canadian Canners, if this condition prevailed with the other canners. The agreement was verbal, as a matter of fact, but it was agreed to at a conference at which a representative of the government sat in, and the growers and the canners.

Q. And under that condition the government put on a dump duty?—A. Yes, on the understanding that the grower was to get the benefit.

By Mr. Sommerville:

Q. When you referred to a representative of the government, did you mean a representative of the federal or provincial government?—A. Federal.

The CHAIRMAN: From the Department of Agriculture.

By Mr. Senn:

Q. Was there a pretty good clean-up of the fields?—A. Yes, the asparagus—personally I did something I had never done before. For two things—in the first place I needed money, and the agreement set out last year for the first time in history was that 50 per cent of the asparagus was paid for 30 days after finishing cutting and the other 50 per cent was not to be paid for until the fall, and that was a stipulation of the canners in order to get this 10 cent price. That was the last time it had ever been in existence, and due to that stipulation and having need of money I reserved a part of the crop for the market and I shipped about 40 per cent of my crop in baskets. I had seven tons. I put four tons in the factory and shipped the balance to the open market, and my books will show and I am testifying that my average price for the asparagus was equal to the canning price. Now, I made that statement the other day and it was disputed that the average grower did not get that. That is possibly the case. I would like to say what I am giving is my actual experience.

Q. What I wanted to find out is if the fields were fairly well cleaned up. Would they have been as well cleaned up if these further purchases had not been made by the Canadian Canners?—A. Of course, if the asparagus had not gone to the Canadian Canners it would have gone to the markets, and it would have been cleaned up in that case. I do not know to what extent it would have affected the general market, but, probably, to some extent on the lowering of the average price. The market was there and the asparagus would have been consumed in any case.

By Mr. Factor:

Q. When this agreement was made did the government obtain an agreement from the canners to pay the growers 10 cents?—A. They had said the canners should pay as they agreed in the conference although not to the word. We did not demand an agreement from the other canners because we thought we were dealing with a bunch of gentlemen and we took their word they would live up to their agreement.

Q. The government took the word of the canners that they would pay 10 cents?—A. And sat in with the growers.

By Mr. Ilsley:

Q. Do you know how much they took at 10 cents?—A. Two independent canners of which I have knowledge bought 150 tons.

Q. I am speaking of the Canadian Canners?—A. They agreed to take 100 tons and they paid for them on the 10 cent basis, and they bought outside of that, I don't know how much, we were given to understand by growers in the district who said we did this and that, that it would run in the neighbourhood of 30 tons at the lower price.

Q. Your complaint is that for their requirements over and above the 100 tons they did not pay 10 cents?—A. That is the complaint—as agreed. It was agreed that they should buy—well, put it this way. We will say you are the general manager of one of the canning companies. You say, "I will buy 100 tons and I am willing to pay 10 cents." On the basis of that settlement other canning companies went out and bought their total requirements at 10 cents a pound, and when the other canners step back into the picture and buy a limited quantity at a lower price it puts him at a distinctive advantage on the market.

By Mr. Young:

Q. What is the practice? Do you sell what you can to the canners and then sell the rest on the market in baskets?—A. Up until the last year I sold the entire crop with the exception—

Q. If the Canadian Canners came in at the end of the crop to buy below the 10 cent price why didn't the others sell on the market as you did and get their 10 cents?—A. I could not answer that.

By Mr. Senn:

Q. Could they have got 10 cents?—A. Possibly not if they had all been shipping. They did not buy this at the end of the season; they bought this through the season at the prices I have mentioned.

By Mr. Young:

Q. Did they not first buy their hundred tons at 10 cents?—A. Yes, but they were taking in from other growers who were not signed at the lower price at the same time they were accepting the 100 tons.

Q. Were there some growers not in the agreement?—A. Yes.

Q. What price did they get?—A. Six, seven and eight cents.

By Mr. Edwards:

Q. Did they have an opportunity of coming in under the agreement?—A. Last year the organization of the asparagus growers did not begin until late in the season. As a matter of fact, the asparagus cut started about the 8th of May and the final arrangement for protection was not put on until the 13th of May. There was an upheaval until the completion of the final agreement.

By Mr. Young:

Q. Is there any difference in the quality of asparagus—A. Yes, asparagus is bought on two grades by the factory. They buy on two grades.

Q. If they are paying one man 10 cents and his neighbour 6 cents, I should think the neighbour would want an explanation—A. You ask for an explanation but it is not afforded; it is either a case of take it or take it away.

Q. Quality has nothing to do with it?—A. No.

By Mr. Sommerville:

Q. This was for top quality?—A. Yes, number 1 asparagus. Asparagus is all graded by the growers and sold to the canner on the basis of two grades this year, 5 cents for number 2 and 10 cents for number 1.

By Mr. Senn:

Q. What I cannot understand is this. If they only paid 8 cents why could the farmer not have taken it on the basket market if he could have realized more?—A. If you understood the farmer as well as I do. He feels that when the canner is offering this price that must be the market price; that he will take it some place else but he cannot get any more anyway. There are many farmers that seem to be easily led. I do not know why, but it is the case.

By Mr. Heaps:

Q. Is it the market price the farmer is receiving from the canner?—A. The canner is demanding a different product from the market—asparagus that is cut too short—that is cut—that has not long enough green on it and a white tip at the bottom. That is not worth the money, and if the green is cut long enough and his whole stock is green the canner demands and receives a product

that is all green. There might be the slightest tip that is white and that grows at the top of the ground—as it comes to the ground it is white. It turns green and comes up in that nature, and it is cut off and sold to the canner as an all-green product. The market does not get that product in that form; there is usually a small white tip. If there is a small white tip, sometimes longer, that is not a suitable product for the canner.

By Mr. Senn:

Q. Would you say that because the canners did pay 6, 7 and 8 cents that it had any effect on the price of the basket market?—A. It probably helped it some. It would help it some because every hundred pounds taken off the market has that tendency.

Q. It cannot be all to the bad?—A. No; but on the other hand we expect people to keep faith.

By Mr. Factor:

Q. Did you make any complaint to the government?—A. We did not for this reason: here we have two canning companies with a total pack of 10 cent asparagus. They were men who had played the game right through the piece on word of mouth. Now, if we had gone to the government and said, "Here, take off this protection" these men would be ruined.

By Mr. Young:

Q. How much did these men take?—A. 150 tons.

Q. How much did they agree to take?—A. They did not agree to take anything; they agreed to buy their requirements.

Q. And Canada Canners agreed to take 100 tons?—A. And took it.

Q. Was 100 tons their normal requirements?—A. I could not answer that.

Mr. ILSLEY: That was their estimated requirements?

The WITNESS: That is what they said last year was their requirements.

Mr. KENNEDY (*Peace River*): Did they agree to buy all at 10 cents?

The WITNESS: No. The manager when he went out said, "I have bought all I am going to do; I have bought all the grass I want at 10 cents a pound. If the protection is afforded, it was enough for the other canners and for us."

By Mr. Sommerville:

Q. And as he estimated his requirements at 100 tons you assumed that is what it was?—A. Yes.

Q. You did not expect he would buy anything over and above 100 tons?—A. We expected on the basis of the agreement if he did buy he would pay 10 cents a pound.

Q. The larger canners did go ahead and buy their whole requirements for 10 cents?—A. Yes.

Q. Without limiting the amount in any way?—A. At the time the agreement was made we had no idea what they were going to buy.

By Mr. Ilsley:

Q. It may have been an honest effort at the time, or not?—A. I rather think it was.

Q. How soon after that time did he start to buy?—A. The next week.

Q. Outside of the lower price?—A. The next week. Some independent canners went out within three days and bought at the lower price—some other canners.

Q. Were they bound— —A. They had given the same agreement as the others.

Q. For instance, you are not complaining of Canadian Canners only?—A. Oh, no. Don't get me wrong. There are many canners in the province, only two of which actually live of up to their agreement. I do not want to do that at all.

By Mr. Young:

Q. Those canners estimated their requirements and agreed to buy them at a certain price and they bought at a certain price?—A. We found there was a lot more asparagus on the market and they said possibly now we could handle it at a lower price and move it.

Q. But is that what happened?—A. I expect that will be the rebuttal.

By Mr. Edwards:

Q. It was the independent canners that broke the market, and Canadian Canners came in after they had taken their hundred tons and bought at the lower price?—A. They started to take their hundred tons immediately, and within a week—and that was spread over a period from the 13th of May until 25th of June—and within a week of the signing of the agreement, or rather the completion of that agreement, and within a week of the 13th of May at which time the whole thing was completed they, as well as other canners, were buying asparagus at 8 cents a pound, and next week at 7 and next week at 6 which continued for the rest of the season.

By Mr. Sommerville:

Q. While they were still taking their hundred pounds?—A. Yes.

By Mr. Senn:

Q. I understood they all agreed to take 500 tons at 10 cents?—A. Oh, no; I did not mention 500 tons.

Q. I thought you mentioned that?—A. Oh, no.

By Mr. Sommerville:

Q. The only company which estimated its requirements was the Canadian Canners?—A. The Canadian Canners.

Q. All the companies said they would take their requirements at 10 cents?—A. Yes.

Q. The Canadian Canners estimated its requirements at 100 tons?—A. They signed a definite contract for 100 tons.

Q. And other canners—two of them that you referred to—did take their entire requirements at 10 cents?—A. Yes.

Q. But notwithstanding the estimate of 100 tons, the Canadian Canners, while they were taking the 100 tons, took more at the lower price?—A. Yes.

Q. And while they were taking their 100 tons other independent canners within three days of the agreement went out and were taking their requirements, which were not estimated, at 6, 7 and 8 cents?—A. Yes.

By Mr. Senn:

Q. Is there no memorandum of this agreement in existence?—A. There is no memorandum of the agreement as between the growers and the government and the canners, because it was all verbal. There is a copy of the Canadian Canners contract for 100 tons, which is available.

By Mr. Edwards:

Q. But they took that?—A. Yes, they took that; there is no complaint about it.

By Mr. Heaps:

Q. Has there been a large increase in the production of asparagus during the past few years?—A. There has.

Q. Have you any idea of what it is?—A. No, I could not say to what extent the increase has been, because I did not know the acreage at the time that I spoke of. The area around St. Catharines has been increasing very materially. I was a member of the asparagus committee and did considerable to get the organization completed, and I may say—I think I could safely say that where there were four acres last year there are five this year.

Q. Up to now the production been taken care of?—A. Up until now, yes.

Q. Do you expect the same continuing increase as during the past few years?—A. Of course, there is only one thing can happen if it continues to increase. Unless general conditions pick up, it is bound to go down.

By Mr. Sommerville:

Q. While this production has been taken by the canning companies, has there been, as well, an importation of asparagus from the United States?—A. Up until last year the importation of asparagus was very heavy, and last year, due to the situation, the importations were cut in half.

Q. That is by reason of the increased duty?—A. Yes. I think the figures—speaking from memory—I am sorry I have not that here; I think you have it; it is in the Department of Agriculture in any event—the importations of 1932 were 803,000 pounds and in 1933 were 413,000 pounds.

By Mr. Young:

Q. At what season does this come in?—A. That is covering the period—the heaviest importations last year were in April.

Q. Before your asparagus was on the market?—A. Yes. I am speaking now of canned asparagus, not of the green product at all.

By Mr. Sommerville:

Q. I was asking you if the Canadian canning companies that do put up asparagus had imported asparagus for canning purposes last year and this year?—A. Not last year. There has been a slight importation this year; just very slight.

Mr. FACTOR: The only person who got the practical benefit of the application of the Dumping Duty was the canner?

The WITNESS: Very largely.

Mr. FACTOR: To a large extent.

The WITNESS: That is our complaint, that the government—

The CHAIRMAN: It is not the Dumping Duty. The duty on asparagus under item 87 is: "Asparagus free, intermediate 27½, general tariff 30 per cent; provided that when imported under the general tariff rate from April 15 to May 31st inclusive the duty shall be not less than 3 cents a pound." That is according to the statute passed in May, 1930; that is a fixed duty within those dates.

Mr. FACTOR: They passed an Order in Council.

Mr. YOUNG: The importations which the canners make for canning purposes I suppose are made before the seasonal duty is effective?

The WITNESS: You would naturally expect that to be the case. I could not say as to what was done.

By Mr. Ilsley:

Q. What was the special duty that the government put on last year that you have been speaking of?—A. A dumping duty on canned goods, valuation for duty as against American canned asparagus; and the reason for it was this that

the price quoted to the trade in Canada was just practically 50 per cent of what it had been the year before due to slaughter conditions on the market on the other side and the growers felt we had reckoned it on the basis on which we were working which was a cost of production of 9 cents. We were asking a cent a pound depreciation for merchandizing and farm equipment.

Q. That duty was on canned asparagus?—A. Yes.

Q. Not on green?—A. No.

Q. What duty was it?—A. I do not know how they compute it as a matter of fact. I do not understand it well enough, but 3½ cents a pound was the basis of the increase.

By Mr. Senn:

Q. I understood you to say in reply to Mr. Factor that the canners were the only ones that benefited by that?—A. Those that did not pay the price certainly were.

Q. Did the farmer not benefit by it?—A. The only farmers that benefited by it were the ones that got the 10 cent price.

By Mr. Heaps:

Q. What percentage was sold at 10 cents?—A. About 250 tons, probably. There was a very large percentage as far as that goes because the two canners that actually paid the 10 cents all the way through, outside of Canadian Canners, are the heaviest canners we have.

Q. What percentage would that be?

Mr. SOMMERVILLE: Their purchases were 150 tons.

Mr. HEAPS: I am trying to get a percentage on the total sale.

The WITNESS: Eighty per cent.

Mr. SENN: That 80 per cent did derive some benefit?

The WITNESS: Absolutely they did.

Mr. SENN: I understood you to say they derived no benefit?

The WITNESS: Oh, yes; the 80 per cent did derive a benefit. But the ones that bought at a lower price defeated the principle that was involved and the grower got a poor price for his product; and they also put themselves in the position to undermine the man who had done as he agreed.

Mr. HEAPS: You complain about the 20 per cent.

The WITNESS: That is the situation.

By Mr. Young:

Q. You ask that a fair price and living wage be allowed to the grower on his asparagus. Suppose such a price is fixed and the canners agree to pay so much under the agreement. If they have their requirements filled the farmer still finds himself with asparagus on his hands, how is he going to get his fixed price on that?—A. I cannot say. As far as I know it is subject to the law of supply and demand. I am in hopes that if this Marketing Act ever develops this whole picture will be ironed out so that everybody will get the same price. Anything that has to be bought off the market below that price will be spread all over the whole crop, but at the moment it is not.

By Mr. Kennedy (Peace River):

Q. You mean, the same price will be paid to others?—A. Yes.

By Mr. Young:

Q. Then each grower will be required to keep a portion of his crop at home?—A. Not necessarily. I think asparagus is one of the crops that a

diminution in price will very readily remedy itself because it is a very costly product to produce, and when it gets to a point where he cannot profitably produce he quits feeding it so that it will remedy itself in a hurry.

By Mr. Factor:

Q. Would not you say that the grower that gets 10 cents for part of his crop will have some of that taken away from him and given to the other growers who are getting less than 10 cents?—A. I am simply trying to give you the picture of the situation as it exists to-day, but we now have an organization that is stepping into the picture to iron out our difficulties.

By Mr. Sommerville:

Q. But you are satisfied that the industry, as such would operate properly under such a marketing system?—A. I do.

By Mr. Young:

Q. It is some sort of a cooling system you want?—A. Yes.

By Mr. Senn:

Q. Something after the system that they have in the Old Country in connection with dairy products?—A. I am not familiar with that system.

By Mr. Ilsley:

Q. Your plan would be to put each grower on an equal footing. It is not your idea to have it so that the grower can only sell part of his crop to the canners. It does not involve that, does it?—A. I do not think it does because in some instances that would be a hardship.

Q. I mean, the man who is far away from the canners would share in the good price just the same as the man who is near to the canners?—A. That would be the outcome of it.

Q. Then the man who is near the canners loses the benefit of his geographical location?—A. I do not just get that.

Q. The man who is near to the canners loses the benefit of his geographical location if he has to divide that up with the man situated far distant?—A. Well, I suppose that would be the natural deduction.

By Mr. Sommerville:

Q. You are hoping that through whatever machinery is set up that you can get together and make some kind of arrangement or agreement?—A. Yes.

Q. That would be satisfactory to the industry?—A. Yes. Mr. Chairman, I just want to say one thing here. I did not come here to say we want redress for this, that or the other. I came to point out what things are like in our industry, and I would like to suggest that something should be done to remedy the situation if it is at all possible.

By Mr. Young:

Q. Do you contemplate any reduction or restriction in acreage this year?—A. No, I cannot say that, I think that can take care of itself.

Q. Is this the only product on which you lose money?—A. Oh, no, I wish it were.

Q. You lose money on all your products, do you?—A. I would not say so, no. Outside of asparagus, everything at the moment is being sold in a haphazard way, some sold to the canners, some sold to buyers, and some to commission men.

Q. And what produce do you make money on?—A. At the present moment, the man who can say he is making money has a lot of assurance. Most of us who are in the production of tree fruits—and I am referring now to my own district because I would not include apples, not being an apple man and our district is not very heavy on apples, but I would say plums, pears, cherries, sweet and sour, peaches and grapes. Grapes at the present time are over-planted, but up till the last couple of years there has been a reasonable profit in grapes. However, taking it over a period of five years I am just about able to hold my own and pay my way, and I would say in the fruit district they are just holding their own.

Q. And a good part of their trouble is due to the general depression?—A. Of course, a lot of our trouble is due to the fact that the average labouring man hasn't any money.

Q. He cannot buy the goods?—A. No, he cannot buy the goods.

Q. Can you tell me how that situation would be remedied by increasing the price of the goods?—A. Take in asparagus, this last year the price is the best we have ever had.

Q. You just said that the working man hadn't the money to buy?—A. As a matter of fact, the statistics will show that the canned goods in hand to-day are lower than they were a year ago—canned asparagus.

Q. That asparagus that was bought at 6 cents how did that benefit the consumer in any way, how did it help the consumer?—A. I do not think he got it any cheaper.

Q. How was it that the man who bought it at 10 cents made a profit?—A. I do not know whether he made a profit or not. However, they do not say they made a loss, but I do not think the consumer benefited by that situation.

Q. You are sure of that?—A. Only from what the canners have told us.

Q. You are sure that the asparagus that was bought at 6 cents was sold at the same price as the stuff that was bought at 10 cents?—A. I would not swear to that. Some of them say that they have 6 cent stuff on hand yet, and if they have they deserve to have it.

By Mr. Sommerville:

Q. It was the same quality, and I presume went into the same kind of can?—A. Yes.

By Mr. Kennedy (Peace River):

Q. Could you get along with a 10 cent price for asparagus?—A. On the basis of present day conditions, yes.

By Mr. Young:

Q. If these canners figure that they could sell say on a 10 cent basis and then buy some more for 6 cents thinking that they might be able to dispose of it, I do not know that we should hold any grudge against them for it?—A. I like to see a man play the game.

The CHAIRMAN: I think we have got that point pretty well clear in our mind.

The WITNESS: There is another question, Mr. Chairman, that I would like to bring to your attention in connection with the local manager. I am not going to refer to the general manager because I do not think the general manager enters into it so far as the grower is concerned. I am now referring to the peach crop of 1931. In the early season of 1931 the Canadian Canners imported into Canada 14 cars of peaches, brought them in in such a condition that the growers had them inspected. Of course, they were much greener than they had been allowed to ship their own goods, but they were left to ripen and they were

canned. Immediately we put in a kick they came out and offered a price of 3 cents per pound for the Canadian product, and so far as I know, with no limit to the amount that they would buy at that price. These peaches went into the can, the imported peaches, and our crop came on; the crop of peaches you put in the cans must naturally be riper when delivered to the canner than peaches that you would ship a distance. Very shortly after the growers started their delivery to the factory, the local manager came out and said: I am sorry but these peaches must be on a 2½ cent basis from now on. And this was a bona fide contract on the form you have here at 3 cents a pound.

By the Chairman:

Q. On the same form?—A. On the same form on exhibit here.

By Mr. Ilsley:

Q. That did not help you much then?—A. Just let us see how much it did help. So far as my knowledge goes—and I have made very close enquiry —only two men that sold to the Canadian Canners in St. Catharines—and I am going to qualify that beause I am not conversant with the situation outside my own district—only two men received the price on which they made their contracts. One was paid the price by fighting the thing through with the local manager and the other went to the general offices and got the price. They then went during this same period to the manager of a co-operative organization who had sold them between twenty thousand and twenty-two thousand bushels.

Q. Who went?—A. The manager of the canners, that is the local manager, went to the manager of this co-operative company.

By Mr. Young:

Q. A farmers co-operative?—A. Yes, a farmers co-operative organization and, what we say, browbeat him, and this man told him that he would take 2½ cents per pound for his stock. Before he accepted the price he was told that they would be accepted on a reasonable inspection, and that if he did not take that price of 2½ cents they would inspect them more closely. Now, he accepted that reduction, and when he made the reduction to the Canadian Canners he found himself duty bound to make the reduction to another canning company to which he had sold 7,000 bushels in order to equalize the price, so that on his crop of peaches he lost $7,500, that is, half a cent a pound on 20,000 bushels.

By Mr. Ilsley:

Q. Is the inspection wholly in the hands of the purchaser?—A. Just as that contract says, wholly in the hands of the purchaser.

By Mr. Young:

Q. Was he selling for all the members of his association?—A. Yes, he was selling for all the members of his association. I am not here to say the general manager knew all about that, but when he did find out he did not say to the local manager: Go back and pay the growers that price, that went through on that basis. As I am pointing out, I am not here to kick about that, but what I am pointing out to you is the conditions under which our growers are existing.

By Mr. Ilsley:

Q. Why did they say that they were buying on a 2½ cent basis from that time on?—A. I do not know why. The general opinion of the growers is that they offered the 3 cent price till they got the imported peaches into the cans in order to keep him quite.

Q. Was not some reason given for reducing it to $2\frac{1}{2}$ cents; was it the quality?—A. The peaches were absolutely O.K.

Q. What reason did the Canadian Canners give?—A. None to my knowledge. The other canners, the independents, who had bought on a basis of 3 cents went on and finished their year and paid the price.

By Mr. Young:

Q. In other words, the 3 cent price was a fair price?—A. Yes.

Q. And you do not object to them bringing peaches in so long as they pay you the price?—A. No, so long as they pay us the price.

Q. Do you know what it cost to bring in those fifteen cars?—A. No, I do not know, but it scares the grower to death when they come in, because he sees them coming in in competition against his product.

By Mr. Sommerville:

Q. Why do you refer to the local manager as being in that position, or why is he put in that position?—A. Well, there is a reason in this way, that I suppose it is good business from a large firm's standpoint, because the local manager has to make his factory pay and he wants to make as good a showing as possible as against the other local manager, and if he can prove that his factory is doing a little better than the other then if he wants an increase he can probably get it.

Q. Do you know of any bonus system that prevails?—A. I understand there is one, but I would not swear that there was.

Q. As between local managers?—A. Yes, as between local managers. There is this system that prevails; I did not realize it for a couple of years. In that same factory the previous manager—not the manager that is there now but his father had his son, not the same son, but another one in there as his factory manager, and he was supervisor over a number of factories in his district; he was buying pears for canning. I had them to sell, and he got my contract for a period of two years at a size of $2\frac{1}{4}$ inches, while in all the other factories over which he had jurisdiction they were taking $2\frac{1}{8}$ inch pears. Now, what I am trying to bring out here is the fact that the manager who was buying the $2\frac{1}{4}$ inch pears had a finer product to exhibit after the season was over than the man who was buying the $2\frac{1}{8}$ inch pears.

By Mr. Young:

Q. And the same price was paid?—A. The same price, yes. I was paying for that factory producing a better product to get myself in right with the head office. That was Keefer pears.

By Mr. Sommerville:

Q. What about some of the problems arising out of the price paid for Keefer pears now that you are dealing with it?—A. Of course, about two years ago there was some effort made by the marketing board in Ontario to get a better price for the growers, and it was agreed by head office, and I believe the notices were sent out, but that was more or less given under pressure, and the growers were satisfied that that was done.

Q. What was the price agreed upon to be paid by head office?—A. I am not certain, I cannot give you that; it was half a cent above the price actually paid, I think.

Q. When you refer to head office you mean the head office of what?—A. Canadian Canners.

Q. That they had agreed to pay 2 cents for canning pears?—A. Yes, and their local managers were buying at $1\frac{1}{2}$ cents.

Q. After they had agreed to pay 2 cents then you say they went ahead and their local managers were buying at $1\frac{1}{2}$ cents?—A. Yes, and it was worked out in such a way that they would pay freight; they said we will take your ones and twos on this basis and in that way it worked out that the grower did not have the grade and they got him to accept the price of $1\frac{1}{2}$ cents.

By Mr. Young:

Q. What other outlets have you besides the factories?—A. As far as Keefer pears are concerned the only market we have is the export market.

Q. Peaches?—A. Of course peaches are shipped as far west as Winnipeg and as far east as the Maritimes.

Q. How would you ship them, in baskets?—A. In baskets, yes.

Q. How do you deliver them to the factories?—A. In bushels.

Q. Bushel baskets?—A. Yes. They provide the bushels.

Q. They provide the baskets?—A. Yes.

Q. And when you ship them to the other market you have to provide your own baskets?—A. Yes.

Q. What price do you get for them in that case?—A. In the early part of the season last year we got 50 cents which would be on the basis of 4 cents and during the bulk of the season at 30 cents, which would be about $2\frac{1}{4}$ cents a pound.

Q. And then you had to pay for your container out of that?—A. Oh no, that was net.

Q. That is just half way between the 3 cents and the $2\frac{1}{2}$ cents that the canners were paying?—A. Yes, but then they have a product thoroughly ripened on the tree. You can quite understand that when you have the product thoroughly ripened on the tree there is quite a loss from falls, and then you take a chance on windblows, and when they are blown off they are not fit for the requirements.

By Mr. Sommerville:

Q. The hazard is great?—A. Yes, the hazard is great. And then sometimes we have to hold back on deliveries.

By Mr. Young:

Q. You cannot ship ripened peaches, you have to ship them on the green side?—A. Yes, that is so. If we take green peaches into the factory they will say: We don't want peaches like that, we will take off so much on that load, and don't bring them in so green. Then you take another load into the factory and they will probably say: Why, those peaches are too ripe we will have to dock you so much on that load, so you see they get you both ways.

Q. If you keep them at home until they are ripe will he accept them then?—A. Yes, if they are fit for canning he will accept them.

By Mr. Ilsley:

Q. You have to put up with this arbitrary docking all the time?—A. Yes.

Q. What would you say about buying on grades?—A. I would say that there should be government inspection of grades; we are very strong for that. This year, as a matter of fact, we are selling a large percentage of our asparagus subject to government grade and it is working out very satisfactorily. When it comes in the government inspector looks it over, inspects it, and that is all there is to it, and it is accepted by both parties as being fair.

Q. That is a mutual arangement?—A. Yes, it is a mutual arrangement. We just called in the government inspectors and said we will pay for that, and that has been done.

Q. The growers are paying for the entire cost?—A. Yes.

By Mr. Sommerville:

Q. What else have you there, Mr. Craise? Can you give the committee any information on the spread in prices between the raw product that you deliver to the canners and the price at which it is sold by the canner?—A. No, I cannot give that spread. One of the independent canners told me that due to the several taxes that are put on the canning industry this last two or three years it was impossible to pass that along to the consumer. That has been the argument, of course, when this tax went on, that it could be passed along to the consumer, but sometimes it gets so big that it cannot be passed along and the upward trend would be too great. In the case of one of the canners, in 1931 he paid the growers, for the entire product that year $54,000 on which he paid taxes of different kinds amounting to $3,000. In 1932 he paid $6,000 on a like buying, and in 1933, with the increase in the sugar tax or the imposition of a tax on sugar, he paid $19,000 on the purchase of the same product.

Q. Yes.—A. Now, it is quite readily apparent that that cannot be passed on to the consumer.

Q. You have not got the figures on the spread?—A. No, I have not.

Q. What else did you desire to present, Mr. Craise?—A. We feel that in the industry in which we are involved, because it is part of our industry, while the canning companies may think that they are the only ones in the picture we would like to say We do not want to do that. However, the American Can Company's contracts have a very great bearing on the canning industry, and we feel that this relation of the canning companies, the can producers with the canning industry would stand a good deal of enlightenment.

By Mr. Factor:

Q. You mean the monopoly and the high price?—A. Yes, because in order to get cans the canning factory has to give a three year contract ahead on a C.O.D. basis on the basis of price set by the canning company.

By Mr. Young:

Q. Is this canning company located in Canada?—A. There are two located in Canada.

By the Chairman:

Q. When you say "canning company" you mean manufacturers of cans?—A. Yes, can manufacturers. We as growers feel that the position in which we find ourselves is very materially affected by this monopoly.

By Mr. Edwards:

Q. Where are those two factories located?—A. One is in Simcoe and the other is in Trenton.

By Mr. Factor:

Q. Are they subsidiaries of the American Can Company?

Mr. Sommerville: The American Can Company is located at Simcoe and the Whillet Can Company has its headquarters and plant at Montreal.

By Mr. Young:

Q. They just make the cans, not the tin plates?—A. No. As far as the fruit end that is all I have to say, but there is one question I would like to see answered with regard to the fertilizer, and to put my position before the committee I want to recite an experience of my own this spring. Going back to last Fall, an agent of one of the companies came to me and asked me if I would like to take a contract as an agent to sell fertilizer. I remarked that I did not

think I wanted to do any such thing and that I was not at all satisfied with the price structure. Well, he said, you take the agency and probably you will have a chance to sell a little bit of fertilizer and you will get your own at the net price. So I took the agency and got some of my own on that basis. This spring he came to me, and in the meantime I had been in touch with a fertilizer committee in the province of Ontario set up by the Ontario government, of officials who are in a position to advise on that sort of thing. Well, he came in one day and asked me if I would go with him on an inspection with the local agent round amongst the growers in an endeavour to make sales. I said Before we go any further let us find out about the prices, what about the price on sulphate ammonia, what is your price to the grower? He said $44 a ton. I then said: Have you sold any on that basis? He said Yes, this morning. I said You ought to be in jail. He said, that is a pretty strong statement, and I said I mean every word of it.

By the Chairman:

Q. $45?—A. $44 cash price, and $46 fall terms, and I will verify that price by the price list, Mr. Chairman. Now, let us analyse that situation: The local dealer quoted me that same price, and he can lay that fertilizer down in his siding by the carload, the minimum carload of 15 tons, at $29 a ton, practically a spread of 50 per cent. I do not know who gets that spread.

By Mr. Young:

Q. Do they deliver that stuff, or does the grower take it out of the car himself?—A. Both.

By Mr. Factor:

Q. What do you mean, he can sell a ton for $29?—A. I can go and buy a carload containing 15 tons and lay it down at my siding for $29 a ton.

Q. Where would you get it from?—A. Well, at the time I was speaking of this I was connected up with the Empire Fertilizer Company in Chatham; they were prepared to do that, and this man told me I will sell you a carload at that price.

By Mr. Ilsley:

Q. Does the manufacturer fix the price to the farmer, or is it the dealer?—A. There is a schedule right there. That is put out by the fertilizer company.

By Mr. Sommerville:

Q. According to the price list of, say, the Empire Fertilizer Company, sulphate of ammonia, your cash price on this price list is $44 per ton and the time price is $46 per ton; that is, of the Empire Fertilizer Company, the spring of 1934 price lists. Now, you say that would be laid down to the agent at what?—A. The $44 price is the grower's price.

Q. Now then, in the province of Quebec sulphate of ammonia cash price was $34.50, and that would apply east of Kingston, $9.50 a ton more west of Kingston than east of Kingston.

By Mr. Senn:

Q. Let us get that right now. Are those prices comparative?

The CHAIRMAN: One is in the area east of Kingston and the other is in the area west of Kingston.

Mr. SENN: No, but I think it will go further than that probably.

By Mr. Senn:

Q. Is not the Ontario price the price laid down and the other price is f.o.b?—A. But if I was going to buy from an agent I would pay $44, that is the quotation there. That would be the price at my dealer's platform wherever it was located.

Q. The local dealer?—A. Yes, the local dealer, or at his warehouse.

Q. Would that fertilizer be delivered by truck to your door?—A. If you are close enough by, but you see it would not be in our location. For instance, we are down on the Peninsula and you know where Chatham is.

Q. I know in my own case, and I live on a farm, that a good deal of that fertilizer is delivered by truck and it comes a considerable distance.—A. Yes, if you buy in quantities; I expect that will chiefly be done by truck, that would be a practical form of delivery.

Q. They generally have truck orders, made up from the same area for delivery at once. As to the differences in these prices, I would imagine one price would be delivered in the farmer's district, while in the other case it would be the price f.o.b., the factory.

The CHAIRMAN: That is right: f.o.b., all brands $9.50 difference; and the freight would be $4.80 by the carload.

By Mr. Ilsley:

Q. Your objection is to the big profit on it?—A. What we are objecting to is the big difference in price between Ontario and Quebec. I happen to be a member of the Ontario Markets Council, and we tried to see if we could buy the fertilizer in Quebec and bring it into the Ontario area for the benefit of our growers there, and we found we could not do it. The companies would not sell it to us.

By Mr. Kennedy (Peace River):

Q. Suppose you did buy a carload at $29 a ton, and went out and sold it at a profit of $5 a ton, what would happen?—A. The basis of the arrangement—fortunately it is getting out—because those of us who know something about it are trying to circulate the news, and the growers are picking up on it. And the committee in Toronto—that is the government committee on fertilizer—are objecting to it. In the first place, the set-up, as far as the dealers are concerned, they tell me that unless you maintain this price schedule that they would not give you their mixed goods to sell. The mixed goods is where they make their money; unless they get an enhanced price on the raw product to the grower, there is no object in that—all of these raw products are purely shipped in so the grower can mix his fertilizer—if the companies can boost the price of the raw product, then the matter of the grower mixing his own does not enter into the picture.

By the Chairman:

Q. Let me ask you one very definite question: you say that you are a member of a committee that endeavored to buy it, could you buy a carload of sulphate of ammonia in Montreal and take it out into Western Ontario?—A. Not so far as I know. We have tried it and could not get it.

Q. They refused to sell?—A. No, they refused to deliver.

Q. How did they do that, did you tell them where you were going to use it?—A. As soon as you give your order and they see that it is to be delivered west of Kingston, they simply say they can't deliver it.

Q. Why do you not buy it at Montreal, and ship it for yourselves?—A. That has not been tried, as far as I know; of course, it would work probably the first time.

Mr. SOMMERVILLE: Once, perhaps.

Mr. FACTOR: Where would you buy it in Montreal?

The WITNESS: You could probably buy it from the agencies there. I imagine the Federee; but they might be limited by some provision with respect to delivery in the area.

By Mr. Heaps:

Q. What is the difference in price?—A. The difference is $9.50.

Q. Between Montreal and Western Ontario?—A. Yes.

By Mr. Ilsley:

Q. You are suggesting that perhaps the reason for the high price of sulphate of ammonia is that the manufacturers want to keep the price of their mixed fertilizer high, so as to encourage the sale of mixed fertilizer?—A. Yes.

Q. That would not explain the big spread between the price to the dealer and the price to the farmer?—A. No. It only explains it to this extent, that the dealer by getting a big spread is encouraged to see that big spread maintained.

Q. I should think it would be the other way; I should think it would encourage the sale of as much sulphate of ammonia as possible?—A. It probably would, but at a price the grower didn't want. But you can understand that if you were buying sulphate of ammonia at $22 a ton and it jumps to $44 a ton, it is going to make a big addition to that product.

Mr. Young:

Q. And is that the result of price maintenance?—A. I do not know the basis for it, but I do know it is happening. I do not know the reason for these things, all I know is what happens the grower on these things. Take sulphate of potash; their price list is confusing. One price is the price delivered, and the other price is the price F.O.B. the factory. It makes a difference, any way you look at it, on this sulphate of potash of $14.00 per ton.

The CHAIRMAN: Do you not mean muriate of potash?

Mr. SOMMERVILLE: Muriate of potash? I thought it was sulphate of potash.

The CHAIRMAN: Yes, you are right—sulphate of potash; and it sells from $70 to $72 a ton.

By Mr. Sommerville:

Q. On sulphate of potash the cash price is $56 in Quebec, and $70 in Ontario?—A. I submit that there is no difference in the quality of sulphate of potash in Ontario and in Quebec; it is a product that is imported on the same basis for quality. What is the difference? Why all the spread?

By Mr. Senn:

Q. Does not the United States Farmers Cooperative handle this product in Ontario?—A. I believe they do.

Q. Do you say they have to pay that $70?—A. No, I would not say that; I do not know what basis they buy their stuff on at all. I am looking at this thing from the grower's picture.

Mr. FACTOR: Would not the question of quantity come in there; if the factory can sell in large quantity would they not deliver it cheaper than to the small farmer?

Mr. SOMMERVILLE: Apparently anybody can buy?

The WITNESS: The question is one which I cannot answer; it is beyond me. I am just trying to point out to the committee what is happening, and what the grower says. It is beyond me to explain it.

Mr. SENN: I think we will get the explanation probably.

By the Chairman:

Q. Is there anything else, Mr. Craise?—A. That is all, Mr. Chairman.

Mr. SOMMERVILLE: Thank you, Mr. Craise.

The witness was discharged.

The CHAIRMAN: I think, gentlemen, with your concurrence, I would like to suggest that we adjourn until this afternoon, and that we will ask the fertilizer representatives here to be prepared to come before the committee this afternoon and deal with this question of price spreads. If that is agreeable to the committee we will stand adjourned until 3.30.

Mr. FACTOR: What about Friday, Mr. Chairman; is the committee going to sit on Friday?

The CHAIRMAN: That has not been decided yet.

The committee adjourned until 3.30 p.m.

AFTERNOON SESSION

The committee resumed at 3.30 o'clock p.m.

Mr. SOMMERVILLE: May I just recall Mr. Craise for a minute.

H. L. CRAISE, recalled.

By Mr. Sommerville:

Q. You are already sworn, Mr. Craise?—A. Yes.

Q. Can you tell me what was the price of nitrate of soda per ton at St. Catharines last Monday?—A. $50, cash price.

Q. The cash price at the dealer's platform?—A. Yes.

Q. That was on Monday, a week ago to-day?—A. Yes.

Q. That was what date?—A. The fourteenth.

Q. That was on Monday, the fourteenth?—A. Yes.

Q. Do you know of any sales at a less price than that?—A. Well, the only sale I know of at a less price than that was in the Burlington district where we have an independent dealer who sold at $41, cash price, last Monday.

Q. That is, where there is an independent dealer nitrate of soda was sold at $41 a ton?—A. Yes. That applies to recently. I don't know what the change was, but this was within the last ten days that price has been arranged.

Q. And that was sold by one of the— —A. Mr. Scott.

Q. I mean it was sold at that price by one of the firms offering at St. Catharines at the same price, at $50?—A. You mean the product came from the same firm?

Q. No, was the sale at Burlington not made by the regular company, the company that was offering it at St. Catharines?—A. No, I would not say that. The dealer at Burlington found he could not buy nitrate of soda direct, and he arranged with Canada Packers, to whom he gave an over-riding commission of $2 a ton to place an order for him. After paying all charges, including $2 a ton, he was able to lay the product down in Burlington at $36 a ton, and he figured that $4.50 a ton—I believe that $36.10 was the correct price, and he charged the growers $40.60.

Q. That is the independent?—A. That is the independent dealer.

Q. To meet that independent dealer's price, do I understand then that the regular company agents in Burlington sold that nitrate of soda at $41 a ton?—A. Yes.

Q. But in St. Catharines at $50?—A. So far as we know, from the same source. I could not say positively, though.

Mr. SOMMERVILLE: Thank you, Mr. Craise.

Perhaps you will let me have the receipt for that, Mr. Robinson, please?

The WITNESS: Thank you. Mr. Chairman, I would like to express the appreciation of our committee for the very fine hearing we have had.

The witness retired.

Mr. SOMMERVILLE: This was a sale to Mr. Robinson by National Fertilizers at $41, May 14, 1934, of one ton of nitrate of soda at Burlington.

(Receipt for one ton of nitrate of soda, May 14, 1934, filed, marked Exhibit No. 183.)

The CHAIRMAN: Who is the next witness?

Mr. SOMMERVILLE: Now we should like to hear from the Eastern Canada Fertilizer Association. The officers are here.

ALFRED L. SMITH, called and sworn.

By Mr. Sommerville:

Q. Mr. Smith, what position do you hold in the Eastern Canada Fertilizer Association?—A. Presiding officer or president or chairman, whichever you like to call it.

Q. Well, what do you call it?—A. Chairman, I guess.

Q. Who is the secretary of that organization?—A. Alex. Mooney.

Q. How many members are there in that association? Will you just name them, please?—A. I think I can name them from memory: Canadian Fertilizer Company of Chatham; National Fertilizers of Ingersoll; Scottish Fertilizers of Welland; Canada Packers of Toronto; Empire Fertilizers of Toronto; Canadian Industries, Hamilton and Witts Fertilizer Works, Norwich.

Q. That is Norwich, Ontario?—A. Yes, Norwich, Ontario.

Q. Have you any fertilizer companies east of Montreal?—A. No.

The CHAIRMAN: In Montreal or east.

By Mr. Sommerville:

Q. In Montreal or east?—A. No.

Q. These are all the companies that form the association?—A. Other than the link-up there might be with Canadian Industries. Their head office is at Montreal, but it is their Hamilton plant that is in the association, I believe.

Q. Their Hamilton plant manufacture the fertilizer?—A. Yes.

Q. How long has this association been in existence?—A. Since January 3, 1929.

Q. What are the objects of the association?—A. I suppose if I would give you the minutes of every meeting, it would probably explain that.

Q. Is it an incorporated association?—A. No.

Q. What are the objects set out there?—A. I will read the minutes of the initial meeting:

> On a motion of A. Mooney, and seconded by S. J. Smith, it was resolved that we form an association to be known as "Eastern Canada Fertilizer Association," with headquarters in Toronto, Ontario.
>
> The purpose of the association is to foster and encourage a better understanding in regard to the proper use and distribution of fertilizers.

Q. Yes?—A. And the next is:

> On the motion of R. A. Stone and S. J. Smith, A. L. Smith was appointed as chairman and Alex. Mooney as secretary-treasurer.

It was moved by S. J. Smith and D. MacLaren that a levy of $10 be made on each manufacturer included in this association to cover initial expenses.

By the Chairman:

Q. $10?—A. $10.

Q. Not a very heavy fee?—A. Well, it is simply for the preliminary expenses, postage and one thing and another.

By Mr. Sommerville:

Q. That meeting was held in 1929?—A. January 3, 1929.

Q. And you have been the presiding officer ever since?—A. Ever since. I presided at every meeting held.

Q. Now, what does that association do?—A. Well, if we ran into any extreme difficulties, we might go as a body to the government to see if our troubles such as tariff or something could not be corrected; or we might be working, as we are doing, with the O.A.C., at Guelph, in demonstration and experimental work, supplying them with fertilizers free of charge, in plain bags, deriving no direct advertising benefit therefrom; also contributing in cash. We were led to believe by Dr. Christie that, if we would help them to do what he had done down in the States, where he had been before, he thought it would be of benefit to both the agriculturist and the manufacturer to allow this information to come from one place only, and let them be guided by the results that they obtained, to give that evidence to the grower. He said that, if we could contribute a certain amount of money, he thought he could go to the Department of Agriculture, and have it matched, dollar for dollar, which we have done.

Q. And that money then is used?—A. Is used by them. We have no control over it whatever. It is just simply given to them.

Q. And that is a contribution towards the study and development of the use of fertilizer?—A. The proper use of fertilizer.

By Mr. Kennedy (Peace River):

Q. Is there any advertising?—A. No, no advertising whatever.

By Mr. Senn:

Q. Can you give us the amount contributed?—A. The amount has varied.

Q. From year to year?—A. No, it is gradually getting less. As industry runs into difficulties, we do not feel that we can contribute quite so much. There is a financial statement here showing everything, every contribution. We contributed ourselves, as Scottish Fertilizers, $1,000 as the start; National Fertilizers, $1,000; Canadian Fertilizers, $1,000; Ontario Fertilizers, $2,000; Gunns Limited, $2,000; Witts Fertilizers, $200.

By the Chairman:

Q. That is to the Guelph college?—A. To a fund which we pay over to the Guelph college.

Q. What is the total of that?—A. $7,200.

By Mr. Sommerville:

Q. That was in what year?—A. That was in the year 1930.

Q. Then you say each year it has been getting less?—A. It didn't get less, I don't think, the following year. If my recollection is right, I think it was the same the following year,—probably added to it in that Canadian Industries came in and contributed a like amount of $2,000.

Q. They contributed $2,000?—A. Yes.

Q. What amount did you pay over in 1932, the same $7,200 or more?—A. 1932 was $7,200.

Q. And 1933?—A. 1933 was $4,050.

Q. Since the original organization of this association, what additions have been made to the membership? I don't think you mentioned Canadian Industries?—A. I don't think Canadian Industries were in existence or were operating at the time it was organized.

Q. By the way, what is your own position? Which company are you with?—A. Scottish Fertilizers, Limited.

Q. Who is Mr. Mooney, the secretary, with?—A. Canada Packers now. It was Gunns Limited, at that time, I think.

Q. Gunns Limited, now Canada Packers?—A. Canada Packers.

Q. What arrangements have you with the membership about their relationship to the association? Do they file bonds with the association?—A. No.

Q. Are there any guarantees from them of any kind?—A. No. They pay their money, that is all.

Q. That is the money that you referred to?—A. Yes, contributions.

Q. Do they pay any membership fees in addition to that?—A. Yes, assessments.

Q. Assessments; what do they amount to?—A. I could not tell you off-hand.

Q. Are they substantial sums or nominal sums?—A. No, they might be $10 or $20.

Q. They are not very large sums?—A. No.

Q. They don't run beyond $25 apiece, would you say?—A. I don't think so. I could go through here and tell you. They can't be any colossal amounts, or I would remember it.

By the Chairman:

Q. Nominal amounts?—A. Yes. I know in the last meeting we had they were saying that funds were getting low, and we would have to make another contribution soon, $10 or something.

By Mr. Sommerville:

Q. In addition to the objects which you have stated, at these meetings did you discuss the terms upon which sales of fertilizers will be made?—A. We have in the past year.

Q. You have in the past year?—A. Yes.

Q. And as a result of that discussion as to terms, have you agreed upon uniform terms or instructions to salesmen?—A. No.

Q. Have there not been issued uniform instructions to salesmen and agents?—A. I guess there are, yes, except we do not, nor do we issue a price list.

Q. Perhaps we will deal with one thing at a time. When you say that you mean?—A. Our own company.

Q. Just look at this and tell me if these are the uniform agents' rules and regulations, spring season, 1934? Perhaps you can identify them?—A. No. I have never seen these before.

Q. Never seen these before? Well, is that company in your association?—A. Yes, they are. I think I have left them out. They are in—Agricultural Chemicals Limited.

Q. They are at— —A. Port Hope.

Q. Do you say you have never seen these regulations?—A. Never seen them.

Q. Or similar regulations?—A. I have seen similar regulations, yes.

Q. Are they practically the same as yours?—A. I would have to go through them in detail to know. I am trusting to my memory for the others. I think this is quite an enlargement on anything I have seen before.

Mr. ILSLEY: Those are instructions to agents?

Mr. SOMMERVILLE: Yes, instructions to agents.

By Mr. Sommerville:

Q. Have you discussed uniform instructions to agents?—A. Yes, a most important thing.

Q. And do these instructions that you see and which I have just submitted to you—do they in general carry out the result of your deliberations?—A. No, I think it is going away beyond anything I have ever had any idea of.

Q. What did you settle upon; anything in the way of instructions to agents as the result of your discussions?—A. You mean for ourselves or for the Association?

Q. I am talking of the association?—A. Yes.

Q. And where are they; are they recorded in your minutes?—A. No, they are not.

Q. Where would they be recorded?—A. If they want to give those instructions they can—we do not to our agents.

Q. I am not talking about your company at all; I am talking about the association. When you discussed and settled upon instructions to agents where are the instructions that were thus settled upon?—A. I do not know. I did not keep them.

Q. Are they not entered in your minutes?—A. There is no minutes in here on it.

Q. There are no minutes in there on it?—A. No.

Q. What were the principles you established—the uniform principles of instructions to agents?—A. A standard selling price as a minimum.

Q. A standard selling price as a minimum? Yes, and was that the same whether it was for cash or time?—A. Oh, no.

Q. What were the terms?—A. $2 off for cash.

Q. $2 per ton?—A. And credit to the first of October of less $2 per ton for cash on delivery.

Q. There was to be, first, a minimum price?—A. Yes.

Q. And, secondly, there was to be the same uniform term of credit to be paid on the 1st of October?—A. No; credit to the 1st of October. You cannot say it must be paid then.

Q. Credit to the 1st of October with $2 discount for cash?—A. Yes.

Q. Now, what next?—A. Probably if we had some of these other lists.

By Mr. Factor:

Q. Haven't you got a copy somewhere?—A. No, because I never figured on operating on that. I did not operate on that basis—the minimum was too low for me.

Q. Your association?—A. Yes, your association.

Q. Have you not got a copy among your formal documents to show that?—A. No, there is not.

Q. Who would have that?—A. Of course, each individual should have it. I should have it.

Q. The members of your association? Your association would not agree upon so important a thing as that without having some record of it?—A. There are certainly records; each of us would have a record.

Q. Has the secretary got the record?—A. He should have.

Q. Mr. Mooney? Do you know whether he is here?—A. I do not know whether he is here or not. I have not seen Mr. Mooney.

Q. Have you not got one of them?—A. No, I destroyed mine because it did not interest me.

Q. When did you destroy it?—A. Shortly after the meeting.

By Mr. Ilsley:

Q. What form is it in?—A. Well, I think I can tell you from memory.

By Mr. Sommerville:

Q. What was the form? Was it in the form of a general regulation or general statement of the prices or terms and dates of payments; the prices for each separate grade of fertilizer?—A. The grade—it would be left with each manufacturer to price his own grades because we do not all sell the same identical brands. As far as the terms are concerned they would be identical with ours.

Q. What was the maximum price agreed upon?—A. That would have to be worked out.

Q. What was the schedule adopted for working them out?—A. That is the point wherein I differed—why I did not agree to it. It is worked on an arbitrary figure which is not true—a true picture of costs.

Q. What was the basis upon which they worked out the cost?—A. So much of nitrogen, phosphoric acid and potash and the various charges, estimated charges.

Q. We had that the other day from Mr. Grose. Did you agree with him that that was the schedule that was adopted?—A. That is pretty well. That is as close as I could rehearse it—closer.

Q. That is closer than you could rehearse it?—A. Yes.

Q. That was the schedule adopted by the association?—A. Yes, as a minimum.

Q. As a minimum; and that basis was to be applied then by each firm to its commodities?—A. That or anything more that he cared to ask.

Q. That was to be the minimum?—A. The minimum.

Q. Yes. And then, Mr. Smith, all the firms apparently sell the same kind of fertilizers to a large extent—mixed fertilizers?—A. No. There would be a few brands that would be sold by all.

Q. There would be a few brands sold by all?—A. Yes.

Q. Now, let us take these standards. The unmixed chemicals would be sold by all—fertilizer materials?—A. No, we do not sell them.

Q. You do not sell any fertilizing materials?—A. No, We try not. Frequently we try to accommodate a man if we have the material there at the time.

Q. You sell them mixed?—Yes.

By Mr. Ilsley:

Q. Take sulphate of ammonia. That was mentioned this morning. Do you sell that?—A. If we had it we would offer it. When we buy our materials, I might explain, we buy what is necessary to make up the tonnage we have previously determined on making for that season. It will be six months or eight months ahead of the season at the least. We buy that and bring it in and we mix it directly it comes to our plants. We do not take it in and handle it again. To save handling we put it through into the various formulas it is going at that time. That has to be again taken out in the matter of four or five days and re-run again, because it is absolutely impossible for any human being to make a definite analysis on a chemical scale; you can make an approximate analysis but the fertilizers get disintegrated.

Q. Let me follow the making of sulphate of ammonia. That is nitrogen? —A. Nitrogen carrier.

Q. It is what you call unmixed fertilizer?—A. Oh, yes, it is only one ingredient.

Q. Now, that is the sort of fertilizer that you do not sell if you can help? —A. No, I do not buy it to sell; we buy it to use. If we have any of it unmixed when we get through—say we have bought five or ten tons more than we use—it is there to sell.

Q. Do you put the price away up, as the witness indicated this morning, in order to discourage its sale?—A. No, we do not.

Q. You heard the evidence this morning that it was selling for $44 a ton to the consumer and at about $29 a ton to the dealer. The $44 price was away out of line?—A. I know that anyone can buy it off me at $29 a ton if he wants to buy it.

Q. Yes, I know; but it was suggested that this $44 price was to discourage the purchase of the ingredients as distinguished from the mixed fertilizer?—A. No. I do not think that at all.

Q. Your own evidence, I think, indicated that you do not want to sell unmixed fertilizer?—A. No. We are in the selling of a manufacture. We are like the baker who does not want to sell flour; he is selling bread.

Q. Exactly. Would that be probably a reason for this very high price for sulphate of ammonia?—A. No, if there was anything like that we would rather not mix at all—just buy and sell it, if we could sell it for that.

By Mr. Sommerville:

Q. Perhaps you, being so familiar with the business, could tell this committee why sulphate of ammonia—why in practically all of the prices filed with us the cash price of sulphate of ammonia is $44 in western Ontario?—A. Experience with business in this game will teach anybody in the course of two or three years that if you buy anything at $29 and try to sell it at $29 you will be broke before very long, depending upon how much reserve you have. The grower in the province of Ontario has been asking from year to year for more and more service. I question if you could get five per cent of the growers this year to take delivery at a railway station; they would not; and it is the price delivered at their barn, whether they want 500 pounds or 100 pounds or 5 tons. We had one order this year of 200 tons. We offered to allow them $100 less on the price if they would take delivery at the station. They would not do it. They wanted it delivered at the barn. They had the teams to haul it.

By Mr. Ilsley:

Q. That does not answer Mr. Sommerville's question. Would you say that $44— —A. Is not too much.

Q. I think you said you would be glad to sell it?—A. If they come and take it. I will not deliver it—200 pounds to this barn and a few hundred pounds to the next barn for $44.

By Mr. Factor:

Q. The price is $44. Is it fixed at $44 cash?—A. I am not sure about that.

By Mr. Sommerville:

Q. Here it is?—A. If it is; all right.

By Mr. Sommerville:

Q. Well here it is, Empire fertilizer, sulphate of ammonia $44; C. I. L. sulphate of ammonia, $46, that is on time, with a discount of $2. per ton.

By Mr. Ilsley:

Q. That is over 50 per cent which is unreasonable, is it not?—A. No, not on that kind of service.

By Mr. Young:

Q. Do you sell this in 100 pound lots?—A. Yes, put up in 100 pound bags. We have to take a shrink on it; the average shrink is about 5 per cent to 7 per cent.

Q. How many of the farmers buy only 100 ponnds? Don't they all buy a ton or more?—A. Well, we sell pretty well over this province and I don't think we have sold 5 tons in the whole province.

By Mr. Sommerville:

Q. In fact, you discourage the sale of sulphate of ammonia?—A. We do not discourage the sale of it.

Q. Well, you prefer rather to sell the mixed fertilizer?—A. Absolutely.

Q. And I presume the reason for that is, that you have found from experience that mixed fertilizers are more profitable than selling the unmixed fertilizer material?—A. We also find it more profitable to the farmer.

Q. I agree with you, but you prefer to sell the mixed fertilizer because it is more profitable than selling the unmixed material?—A. Of course, that is our business entirely. That is what our money is invested in to-day.

Q. You agree with me then?—A. Not in the way you put it.

Q. Well, put it your own way?—A. We have built a plant there and put over a hundred thousand dollars into it, and we built the plant entirely for the manufacture of fertilizer. If we were going into the warehousing of it and the selling of it only we would not need any equipment other than a shed.

By Mr. Factor:

Q. All those reasons you give go to prove that you prefer to sell the mixed fertilizer?—A. Undoubtedly; that is our business.

By Mr. Sommerville:

Q. Now then, Mr. Smith, in your association did you agree upon these various prices that have been set out in the price lists that have been filed?—A. Yes.

Q. For instance, I see here the price for mixed fertilizer per ton of 2,000 pounds, 6-8-10, spot cash $44.85; time price $46.85.

Mr. KENNEDY *(Peace River)*: Is that a zone price?

Mr. SOMMERVILLE: No, anywhere in Ontario.

By the Chairman:

Q. Tell me, Mr. Smith, is that a delivered price?—A. Yes, delivered to the barn.

By Mr. Edwards:

Q. How many months of the year do you operate?—A. Well, our plant is operating almost continuously, but about half of that time is used in manufacturing and the other half in shipping; we will have about four to six months of shipping. We are just about furnished with our spring shipping now, and we will start in manufacturing for next season, and we will be working right along as far as possible, and when it is manufactured it has to be matured for at least three months before we can start shipping.

Q. You will have very substantial carrying charges before you ship?—A. Well, your money is invested for at least six to eight months, and you have got your shrink which runs from 5 to 7 per cent.

By Mr. Young:

Q. Where is the shrink, in the kegs or does it evaporate?—A. There are certain elements. All of these are materials which are injurious to plant life

and which we consider must be taken out. After it is manufactured you can ship it and there will be practically no shrink.

By Mr. Sommerville:

Q. Just let me get this clear. Your mixed fertilizer is 2-12-6, that is your formula?—A. Yes.

Q. And the price that you agreed upon in Ontario is $34.65 delivered?—A. Yes.

Q. And 2-12-10, the price agreed upon in Ontario, delivered is $37.45?—A. I do not know about 2-12-10 because I am not conversant with that one, we do not make it.

Q. Perhaps you can follow some of the price lists that we have?—A. Yes.

Q. What was the price of 2-12-10?—A. I do not know.

Q. You have not got that?—A. No, it is not one of our brands.

Q. Then 4-12-10?—A. I don't know that either.

Q. Then 6-8-10?—A. I don't know that.

Q. Then 9-5-7?—A. That is another one I don't know.

Q. And 5-8-7?—A. I don't know that one either.

By Mr. Factor:

Q. These brands you do not manufacture?—A. No. That is another one of the expenses of the fertilizer manufacturer, a yard and a half of brands, which all cost money. I suppose there are 500 different brands made in Canada.

By Mr. Sommerville:

Q. Well now, at this association you established the price then for 2-12-6, C.I.L., cash price for Quebec, $25?—A. I don't know anything about Quebec, we don't operate there.

Q. Well, in this association had you any discussion of the price to be charged in eastern Canada?—A. No, we have nothing to do with eastern Canada at all.

Q. Your association have nothing to do with eastern Canada?—A. No, nothing at all. That was in 1929. When we started we thought that eventually we would have all the manufacturers in eastern Canada, but since the other industries have started in the Maritimes and in Quebec—they did not exist at that time—our operations have been confined solely to Ontario where these plants previously were and where they still are.

Q. When you say "Ontario" how far east do you go?—A. Kingston is the dividing point in Ontario, because of the fact that for some reason or other the Quebec fellows come as far as Kingston with their Quebec price list. I have had to lose thousands of dollars of business.

By Mr. Factor:

Q. Are you speaking as a member of your firm or as a member of the association?—A. As a member of our firm.

Q. Would a member of your association operate in eastern Canada and Quebec?—A. They may.

Q. Well now, Mr. Smith, don't you know?—A. No, I do not. I would not know. That is entirely up to the manufacturer who wants to go down. If I want to go down and do business in eastern Ontario and Quebec it is entirely up to me.

By Mr. Edwards:

Q. Is there any understanding between the members as to definition of territory?—A. No.

By Mr. Sommerville:

Q. Will you tell me why, Mr. Smith, the Eastern Canada Fertilizer Association only functions as far as Kingston?—A. Because the Quebec price list is down to the point where we cannot possibly manufacture in central Ontario and ship it down there and compete with Quebec.

Q. Where does the Quebec price list come from?—A. From the Quebec producers.

Q. They are also members of your association, are they not?—A. No.

Q. Well, one of them is?—A. One of them happens to be.

Q. C.I.L?—A. Yes.

Q. And Canada Packers?—A. Yes, Canada Packers have a branch in Montreal too.

Q. Anybody else?—A. Not that I am aware of.

By Mr. Factor:

Q. What about Canada Fertilizer?—A. Canadian Fertilizer?

Q. Yes?—A. You mean Canadian Fertilizer, Chatham?

Q. Yes?—A. I don't know I am sure. If they do it is absolutely up to them if they want to.

Q. And what about the National?—A. It is the same with them; they probably might do it.

Q. Well, they do operate both in western Ontario and eastern Canada; they have separate price lists, you know that?—A. Naturally they would.

By Mr. Sommerville:

Q. Why naturally?—A. Because of geographical location.

Q. Just?—A. Just, yes.

Q. And their price list is proportionate to the geographical location?—A. I think so.

By the Chairman:

Q. Who fixed that geographical division at Kingston?—A. As far as I am concerned it was not the association. It certainly was not any Ontario manufacturer who fixed it there.

By Mr. Sommerville:

Q. Did you discuss it with members of the association?—A. No.

Q. Has it ever been the subject of discussion in the association?—A. I don't think it came up at any time. We had to accept the thing as it existed; if these fellows down there were selling the thing as far as there, why they stopped there I don't know; I don't know why they didn't come to Toronto.

By the Chairman:

Q. Who are those fellows?—A. The two you have mentioned, the Canada Packers and Canadian Industries Limited; and I think there are a couple of other producers down there as well.

By Mr. Sommerville:

Q. But those are the big producers?—A. There are some other big producers.

Q. But those are two of the big ones?—A. Yes.

Q. And those two big producers in Quebec, you see, sell as far west as Kingston?—A. Yes.

Q. On a certain price list?—A. Yes.

Q. And that price list is substantially below the price list for all west of Kingston?—A. How much I cannot say; I would have to figure it out; they quote down there, as I understand it, on the basis of f.o.b.

Q. But they are substantially below the prices for west of Kingston?—A. Yes.

Q. And these two big producers are members of your association for western Ontario?—A. Yes.

Q. And you tell us that you have never discussed with them at any time the question of prices east of Kingston and prices west of Kingston?—A. Not any more than I might criticize them sometimes if I had courage enough to do it.

Q. Well, it would take some courage I agree.—A. If he is a bigger man than I am.

By Mr. Young:

Q. What would your criticism be?- A. That they were very foolish selling it at the price they were selling it. Unquestionably, in my estimation.

By Mr. Sommerville:

Q. Now, let us take this mixed fertilizer, 2-12-6, you know that?—A. Yes, sir.

Q. You make that?—A. Yes, sir.

Q. And you sell that?—A. Yes.

Q. And you sell that at $34.65 west of Kingston?—A. No we don't.

Q. What do you sell it at?—A. $36.

By Mr. Ilsley:

Q. What is your cash price?—A. We sell for $34 cash.

By Mr. Sommerville:

Q. Those are cash prices that I quote.—A. $34.65?

Q. Yes, $34.65?

Mr. Edwards: Are those delivered or f.o.b?

Mr. Ilsley: I suggest we take one or the other throughout, either cash or credit.

The Witness: Well, our price is built on the credit basis but we do not give credit. We allow the $2 off this list just the same, and there is a mighty good reason for that if you care to have the explanation. It isn't every man that pays when he gets the goods, and he sometimes keeps you waiting till a bunch of pigs are sold six months hence, and if he bought for $34 he only pays you $34 in six months time. The trucker leaves the goods but you are left waiting for your money.

By Mr. Young:

Q. Then you put another penalty on the farmer if he pays cash.—A. Oh no, no penalty to the farmer.

Q. Oh yes, you charge an extra 1 per cent for cash.—A. Pardon me, we do not.

Q. Well, that is the evidence we had the other day.

By Mr. Factor:

Q. You allow the agent 1 per cent, do you not?—A. If he comes in and lays the money down then we allow him 1 per cent, but he has to finance the stuff for 30 days or so.

By Mr. Sommerville:

Q. Let us take the C.I.L. price for Ontario and also for Quebec. C.I.L. delivery price cash, 2-12-6, for Ontario $33.75?—A. I guess that is right.

Q. And for Quebec and eastern Ontario $25?—A. Well, I cannot say anything about Quebec.

Q. Well, but you know that is the price?—A. I know it is somewhere around there.

Mr. SENN: The delivered price?

Mr. SOMMERVILLE: No, that is the price f.o.b.

Mr. ILSLEY: Both of them?

Mr. SOMMERVILLE: No, the price in Ontario is a delivery price, and the price for delivery from Montreal and eastern Ontario, say Cornwall, is $25 cash, f.o.b. Montreal.

The WITNESS: I presume so, but I cannot say on that because I have not got the price list and I do not know.

By Mr. Sommerville:

Q. Well, Mr. Smith how do you account for this very wide difference in the price between eastern Ontario, east of Kingston, and the price west of Kingston?—A. Well, about half of that is accounted for in the service rendered. In Ontario you are delivering to the farmer's barn.

Q. Yes.—A. And in Quebec they are loading it into a car and shipping it. The other man is paying for all those charges and going to the station and getting those goods. Another thing might be the question, and certainly would be the question if you were located on the Seaboard. Most all of the material used comes in from overseas and based on a seaboard price. For instance Baltimore would be the pivotal point on which it is based, that is, on some material the same as Chicago might be for wheat.

Q. Yes?—A. And whether you bought in Baltimore, New York, Philadelphia, or some other point, you would buy on the basis of Baltimore. You would pay whatever freight there was from that point inland to your factory.

Q. Yes, but if you are on the seaboard your delivery would be by water, would it not?—A. By water?

Q. Yes?—A. That delivery is much less at Montreal than it would be at Welland, St. Thomas, or any other point in Ontario.

By the Chairman:

Q. Not so very much, would it, in large quantities?—A. Between $5 and $6 a ton.

Q. By boat?—A. No, but the boat cannot give you delivery. There might be the odd person who is so favourably situated; but we are on the Welland canal, and we cannot unload a boat at our place now since they have enlarged the canal unless we spend $100,000 or $200,000 putting in a dock. We used to do it but we are shut out from the privilege now.

By Mr. Sommerville:

Q. I suppose if you wanted to unload by boat you would have to unload at Port Colborne?—A. Yes, and we would have shrink and spill along the line, but we have been bringing it in by rail since then because we think it is cheaper.

Q. Now then, what about nitrate of potash and sulphate of potash, German products; there is very little difference in freight as between Montreal and Welland.—A. Why talk of German products alone.

Q. I am just talking of that one line?—A. That one line is procurable in Russia, Palestine, Germany, France, and three places in the United States.

Q. I suggest to you that that which comes from overseas, the difference in freight would be a very small matter, would it not?—A. No.

Q. Between Montreal and Welland?—A. It would be the same thing as on anything else.

Q. It comes in by boat?—A. But we would not bring it by boat to Welland.

Q. To Hamilton?—A. Yes.

Q. And, as a matter of fact, is it not brought to Hamilton?—A. Yes. I suppose at approximately $4 by boat.

Q. That much?—A. Yes. Maybe a little less, but I don't think so. I have not gone into that matter because we were told that we could not unload on the canal bank any longer, and I have not been negotiating for any of the freight being carried by water.

Q. Yes? Well now, you said that probably part of that amount might be freight?—A. Oh, there is a big portion of it, made up by freight.

Q. Can you tell me what might be freight?—A. About $3.50.

Q. That is high?—A. If it could be brought by boat.

Q. That still leaves you $5.50 difference on that mixed fertilizer, 2-12-6?—A. Well, I don't think there is that much.

Q. How do you account for that $5 which is 20 per cent more than the Quebec price in itself, now you have eliminated the freight difference; how do you account for that?—A. If you live ten miles east of Palmerston I would have to ship a carload to Palmerston—a freight rate of approximately $3; and I would have to hire a truck to pick it up from the car and take it out to your farm—approximately $1 per ton; there is $4 of it.

Q. Yes, that is one part of it—how is the rest made up?—A. I do not try to make it up.

Q. How do you arrive at this minimum price for Western Ontario?—A. I do not arrive at it, nor do I approve of it.

Q. Why did you all agree upon it?—A. I did not agree on it, we sell for a higher price than that.

Q. You sell for a higher price than that, $36?—A. Yes, sell more than that on some of the other brands.

Q. At least you have agreed among yourselves that the minimum shall be $34?—A. That is it.

Q. $34?—A. $33.75, I think the figure is there.

Q. $33.75, and you say that that is the amount agreed upon, Mr. Smith; at what meeting of the association?—A. It would be sometime this spring, before the season started.

Q. Sometime in the spring of 1934?—A. Yes.

Q. Have you got the minutes of that meeting?—A. No, that is the minutes I have not got.

Q. Have you any of the minutes of any other meetings settling price for the product?—A. No.

Q. Are there any minutes in existence?—A. Of course there are.

Q. Where are they?—A. I can't tell you, I do not keep the minutes.

Q. You have a copy there—is that the minute book?—A. That is the minute book.

Q. Let me have a look at it—this is a minute book without minutes?—A. No, it is not. I do not think it is.

Q. Without minutes?—A. When we had another meeting I would certainly would want to see the minutes of the previous meeting. We have not had a meeting since that.

By Mr. Factor:

Q. I suggest that you treat the committee with a little more frankness about these minutes. I was under the impression when you first gave evidence that you were giving us the minutes of all your meeting?

Mr. Ilsley: They are important minutes, are they not?

The Witness: We have not had a meeting since that last meeting. I presume so. I do not know.

By Mr. Ilsley:

Q. Was there some reason for suppressing these minutes that are not there?—A. No.

Q. These are the minutes of that meeting between the companies about prices, aren't they?—A. Yes.

Q. I suggest to you that these minutes were being kept dark for some reason; were they?—A. They might be, I do not know anything about it. I did not even see Mr. Mooney, and I did not see any of the other members when I come here, I was out on the road and at midnight there was a telegram and I came to Ottawa. I asked to have the minute book sent. I have received the minute book, but I have not talked with anyone. I did not know that they were not all there.

By Mr. Young:

Q. You asked Mooney to send you the minute book?—A. Yes.

By Mr. Ilsley:

Q. You referred a while ago to some meeting of the association, Mr. Smith?—A. If we were having a meeting and working it out, yes. I think I would make notes, but I do not think I would keep them.

Mr. Factor: That is not what Mr. Ilsley referred to at all.

By Mr. Ilsley:

Q. I want to know how this minimum, the fixing of a minimum price for this territory was arrived at; and what happened to the minutes; it is not here—was it a verbal understanding ?—A. I imagine—no; notes of it would be made, undoubtedly.

By Mr. Sommerville:

Q. Who would have those notes?—A. The secretary should have them.

By the Chairman:

Q. Where is he?—A. He would have them.

By Mr. Sommerville:

Q. And the secretary is not here?—A. I do not know whether he is or not; you can call him, I have not seem him.

Q. You would know whether or not he had been here Friday or to-day?—A. He was not here Thursday or Friday.

By the Chairman:

Q. You see, Mr. Smith, the significance of this—?—A. I quite understand it. I am in the unfortunate position that I am unable to give you more than my version of it.

Q. Wait until I finish my point. The significance of this lies in this: we have evidence before us that the individual purchaser of fertilizer in Ontario living at any point in Ontario beyond the line drawn north from Kingston cannot go into any part of Ontario east of that line and buy fertilizer himself and truck it, or freight it, or deliver it to his own farm; although he can buy it much cheaper than he can buy it west of that line. Now, that is a very important matter?—A. I do not think, Mr. Stevens, that there is anything so far as the association is concerned that will hold any control over that at all. There might be certain members of the association—.

Q. There is something which you yourself said which indicates control. A moment ago you said, in a rather indifferent way—you referred to "them"; I presume you referred to the big manufacturers to the East of that line, that they would not permit you to deal east of that line?—A. Oh no, that would not stop me from dealing there, they have no control over that; but their price is so unattractive that I stay away from it—neither would I go out to British Columbia and do business.

Q. Do you buy any of your materials from C.I.L. or Canada Packers?—A. No, we do not.

Q. Do you not buy from them?—A. I have bought a little once in a while, if we are short or something like that.

Q. How is it that Canada Packers are a member of your association, and you are president, and they can sell fertilizer east of the Kingston line so much cheaper than they can sell it west of the Kingston line?—A. By shipping from the Montreal factory.

Q. Is that the only answer?—A. That is the only answer I can think of.

Q. Freight would not account for that?—A. I would imagine—I have never gone into it—but I would imagine that the dividing line on freight is Kingston. Kingston is approximately the dividing line, I am not sure on that but I would imagine that would be the point; that they could not economically send goods down from there below that point.

Q. Now, wait; just let us test that a minute?—A. Mr. Grose of Canadian Industries is here. He is operating both in Quebec and Ontario. Probably he could answer these questions.

Q. This is rather an important matter. It looks to me, however, that there is something more than just a mere understanding. We take for instance 9-5-7: I have the C.I.L. price lists for Quebec and Ontario before me—unfortunately the Quebec list is wholly October 1st, so I will take October 1st or the credit figures in both instances—9-5-7 in the Quebec area, that is east of Kingston, sold at $32.50 f.o.b. Montreal; west of that line it is sold at $48.45 delivered—I think the differential is $16?—A. That is $46.45 cash, isn't it?

Q. $48.45 is October 1st, the other is credit?—A. Oh, is it?

Q. So they are both on the same basis; that is the differential, $16.

Mr. SOMMERVILLE: Or 50 per cent.

By the Chairman:

Q. Now then, you can ship that from Montreal by the ton into western Ontario for $4.80 a ton, I think, we will say to Hamilton or Toronto?—A. Let me explain, Mr. Stevens, that according to the Dominion Bureau of Statistics, the sales in all Canada for the particular brand you are speaking of was 31 tons.

Q. I don't care if it's only an ounce, I am asking for information?—A. I do not know why that differential, but I imagine if they had some man up there who wanted 2 or 3 tons shipped from Montreal to any place up there (west of Kingston), they would have to take out a registration for that territory and pay $30 for that registration to buy 5 or 6 tons. They are probably trying to make the man pay for some of it.

By Mr. Sommerville:

Q. That surely would not apply?—A. I do not know, that is sales I would not be interested in; and if anybody asks me about it I would not even give them a price—it makes it prohibitive.

By the Chairman:

Q. Let us take 6-8-10; I know nothing about these, I am just taking the price list; the Quebec price is $35.50, and the Ontario price of the same company

is \$46.85; that is \$13.05 higher in Ontario than in the Quebec area?—A. Evidently that is another "special" because there was only 7 tons sold in all of Canada.

Q. Yes. Well, we will take another one then—it seems to me they are wasting a lot of printer's ink?—A. They are, that is what I say; this great list of brands is part of the cost of doing business.

Q. Take 4-8-10 again, I say I know nothing about it?—A. 4-8-10 is the standard.

Q. All right, it is a standard. This \$30 in Quebec, and \$41.55 in Ontario; that is, in Cornwall, for instance, the price would be \$30 plus freight from Montreal, and in Belleville or Brighton, just west of Kingston, it would be \$41.55. Now, I submit to you that there must be some explanation of that other than what you have given?—A. There is about \$8.00 difference.

Q. There is \$11.55 out of which freight would come?—A. Out of which the Ontario man has received the service of freight and trucking.

Q. That is not sufficient, though; there is some other explanation?—A. You can't make it in Ontario at that price.

Q. Yes. What I am getting at is you, or your association, or these people—the C.I.L. or Canada Packers refuse to sell an individual east of that; he cannot go there and pay the cheap price and take it from there west of that line?—A. I did not know that.

Q. We have some evidence before us now that they refuse to sell, and we are asking you as head of this Association in Ontario to explain to us why it is that a person in your territory cannot go into another part of Ontario and buy this product freely and take it home himself if he wished. Surely our people are free?—A. I think he could.

Q. They say they can't; we have evidence here saying they have been refused?—A. Probably Mr. Grose can give you some evidence on that point, I don't know. I think he could give you some evidence that will refute that.

By Mr. Ilsley:

Q. Your territory is not invaded by the Quebec price list, is it?—A. Yes, oh yes.

Q. How far west does it come?—A. I run across it every once in a while, they are liable to go out into western Ontario every once in a while, and I run across people who are getting the Quebec price—and I know I can't touch it; if anybody wants to, let them go ahead and buy it.

By Mr. Sommerville:

Q. Why do you say, let them go ahead and buy it, when you know they can't buy it?—A. No, I do not know that.

By Mr. Young:

Q. Do they buy it?—A. I think, if they knew their business, they could buy it. I am not going to show them how.

By Mr. Sommerville:

Q. You are not?—A. No, I am in the business, I am not going to show them how to beat my prices.

Q. I presume there is a way around?—A. No, not a way around, a direct way; but I do not propose to give them a line on it, because we have to sell our fertilizer.

Q. Why should it be necessary for them to get a Quebec list? Why should not the man who wishes it be able to send and get a direct list from C.I.L. or

Canada Packers, and say ship me five tons of fertilizer on your Quebec list f.o.b. Montreal, I will pay freight, here is cash—why should not they be able to do that?—A. They should.

Q. They are not able to do that, are they, Mr. Smith?—A. I do not know.

Q. Is that a fully frank answer, Mr. Smith?—A. Absolutely, I am not operating in Quebec, I do not know what they might do there.

Q. I am not talking about Quebec, but about the territory in which you are operating. Do you mean to say that anybody to whom you are offering your goods for sale could take that Quebec list and send to Quebec and buy all they want in Quebec, and pay the freight from Quebec?—A. I do not know whether they could or not.

Q. Do you know that they cannot, Mr. Smith?—A. No, I do not.

Q. You do not know that?—A. No, I believe they can.

Q. Have you ever known it to happen, because we would like to have that rare instance established?—A. I can give you hearsay evidence of such happenings, I do not know of any definite cases.

Q. Have you heard of that same price prevailing in Northern Ontario, the Quebec price?—A. No.

Q. Do you ship into Northern Ontario?—A. Some, around Sudbury.

Q. We have had evidence here that that same Quebec price prevailed in shipments to points west of Kapuskasing in Northern Ontario; do you know anything about that?—A. I do not, we do not even operate up there—any more than that we fill orders that come to us from there—we have some men around Sudbury who order each year and we ship them.

Q. Now then, Mr. Smith, in addition to the minimum price to be charged, what else do you agree upon in the association by way of terms or conditions?—A. I don't think there is anything else, except the terms of credit.

Q. Method of credit, all right, that is important, too. Up to a few years ago the agent sold the fertilizer and the company assumed the risk of collecting, did they not?—A. Never, in our case.

Q. Not in your case?—A. Not our firm.

Q. In the majority of cases that was so, was it not?—A. No, I do not think so.

Q. Was not that the general practice up till the last few years?—A. I do not think it ever was practised with the C.I.L., the isolated case was Canada Packers.

Q. What change has taken place in the method or manner of establishing these credits as a result of the deliberations of your association?—A. No change of importance.

Q. What were your discussions about then?—A. Other than that the date of payment, the extended date of payment on tobacco fertilizer which used to be December 1st was changed to November 1st, because we found if we waited until December many of the tobacco growers who had a crop had the money all spent and had nothing for fertilizer. We had to get in early enough to be able to get our money when the sale was made.

Q. Was it in the years 1931 and 1932 that you discovered that?—A. Yes.

Q. Those were the bad years in the tobacco business?—A. Oh, no, there was thousands of dollars from the good years never paid, thousands.

Q. But a good many thousands from these years 1931 and 1932 were never paid?—A. Not with us. We have been on a strictly cash basis for three years.

Q. You are talking now of the other firms in your association?—A. I cannot say anything about these debts so far as any other firm is concerned, because that has nothing to do with our association whatever.

Q. What did your association agree upon then, apart from this question of changing the credit date for tobacco to November 1; what other things did they agree upon?—A. I guess that would be all.

By the Chairman:

Q. Now, just wait a minute, before we leave this other point. Here is from the evidence—I think it is Mr. Grose on Friday, in answer to a question, precisely the same kind of a question as I asked you about shipping from Quebec, if that were possible. The question was:—

> If they were able to purchase in Eastern Ontario they could buy it and ship by local freight, and still get it cheaper than at the list price.

And the answer was:

> The railway rate from Montreal to Toronto is about 44½ cents per hundred L.C.L.

I think that is about $4.80 on a carload lot. Then the question was:

> You have a difference of $18 a ton there and the answer is:—
>
> Yes, but of course according to arrangements, that would not be shipped.

Now, what we are asking you is, what has your association to do with it. C.I.L. and Canada Packers are both members, and have factories in both areas. What is the arrangement that prevents a citizen of Western Ontario from buying his fertilizer in Eastern Ontario and shipping it to his own place?—A. There is no arrangement so far as the association is concerned. I know of nothing to stop it, other than the people who are operating there probably don't want it. If they did it would be too bad for me.

By Mr. Sommerville:

Q. Will you tell me then why the farmers of Western Ontario are paying from $5.00 a ton upwards more for their fertilizer than those of Eastern Ontario?—A. They are getting about $8.00 more service.

Q. Oh, but, this is apart from the service; we have covered that?—A. There is not that differential.

Q. There must be, on your own evidence it would be too bad for you if they brought it in at that price?—A. Sure, it would be too bad for them to try to do it; that, to try to ship it in to Ontario at those prices.

Q. Why?—A. Because they would be losing money.

Q. Because they would be losing money?—A. Undoubtedly.

Q. They have offered to sell it, and they are selling it now all over Quebec and eastern Ontario at this price f.o.b. Their list price is $25 or $30 as the case may be, and it does not make any difference whether the fertilizer goes to McKee or Halifax?—A. That is something I cannot answer, for I am not manufacturing down there. I don't know anything about the problems—I know something of them, I have a faint idea of their problems, but I do not think it would be possible for me to operate down there profitably under the scale of prices you have mentioned.

Q. And did you ever inquire to find out what it was that brought the scale of prices down to this level?—A. No.

Q. Never interested in inquiring?—A. No.

The CHAIRMAN: The thing that puzzles me, Mr. Smith, and I repeat it the third time, is this, two of the biggest manufacturers have factories at both points, Canada Packers and C.I.L., and yet there is a little difference in their prices and they are members of your association; and surely you do not want us to believe you have never discussed the question with them?

The WITNESS: Not so far as division points are concerned, never.

By Mr. Ilsley:

Q. Your evidence amounts to this, that their f.o.b. price at Montreal is unprofitably low; that is what it means?—A. I am sure it is; I am sure it is.

Q. In other words—A. I cannot prove that. I cannot get access to their records or anything else, but I am perfectly satisfied, from my experience in the business, that it would be very unprofitable. I know it is unprofitable in the province of Ontario at the price we are operating at.

By Mr. Sommerville:

Q. Now Mr. Smith, perhaps you can get us the records to which you are referring and the memorandum made at the last meeting. Will you secure those from the secretary?—A. I will secure them, get them for you.

Q. I mean the list prices that were settled upon and the agreements, at that time?—A. I do not know that there would be a list price. I do not think there would be anything like that settled on. I think it would be a scale of operation somewhat similar, possible similar, to what Mr. Grose had there.

Q. Will you get us the scale that was settled on?—A. Yes.

By Mr. Ilsley:

Q. Can you suggest any reasons why these companies would carry on business at a loss from Montreal?—A. When you had got your money invested in place and somebody else comes in and starts some competition, there is only one of two ways to meet it; either meet it or let him have all the business. And there are lots of people in this business, the same as in anything else, who estimate costs to find out later if their estimate was wrong.

Q. How long have those Quebec prices been in existence?—A. I would say about two years.

By the Chairman:

Q. Here is some more evidence of one of the growers who got by the barrage and got one order, and he says he bought from a Quebec firm.

> Q. What was the price at which you were buying?—A. Oh, quite favourable. I did not think this was coming up, or I would have had data on that.
>
> Q. Was it from the Co-operative Federee of Quebec that you were buying?—A. Yes.
>
> Q. You say that two or three weeks afterwards they refused to sell? On what grounds?—A. I think there was pressure brought to bear, and therefore they could not sell in Ontario.

Here is a man who got by—you said you heard of one or two who did—then he was stopped by pressure from Ontario?—A. I think that statement is based upon suspicion, not upon fact.

Q. The fact is clear where the pressure was, in Ontario?—A. I have talked with Mr. Grubb to-day, who, I think, handled that deal, or at least had something to do with it, or was conversant with it. I think the facts of the case are entirely contrary to that evidence there. The man had a quotation weeks and weeks in advance. He waited until it was impossible to ship and then asked them to ship the goods.

By Mr. Sommerville:

Q. No, that was not the case, Mr. Smith. Here was a case where the order was accepted and then two weeks later they wrote saying they could not ship?—A. I do not know anything about that.

Q. We had the letter here.

By Mr. Senn:

Q. Is the Quebec co-operative organization operated by the Department of Agriculture, Quebec?—A. I understand there is a subvention, or something.

Mr. BOULANGER: They get some help from the government.

The WITNESS: They get help from the government.

Mr. SENN: Does the government do anything with the business of the organization in any way?

Mr. BOULANGER: No.

By the Chairman:

Q. Here is a sworn statement, Mr. Senn:

> You have to buy a considerable quantity of fertilizer. What do you say is your objection, if you have any, to the present system under which you buy fertilizer?—A. The only difference there is in the fertilizer firms this year that I can see at all, is the colour of their price-lists. I am a member of the purchase committee of the Northumberland county, and at our representative meeting in March we agreed to buy fertilizer from a Quebec firm. That was done in our meeting; everything sealed up. Two weeks after that, two or three of the committee had to get together and do something else, because they were absolutely stopped from selling to us.

A. That is the first intimation I had of it, that evidence here and I do not think the evidence is correct.

Q. These are responsible men. These are the men who bought fertilizer, and they make those statements.

By Mr. Sommerville:

Q. Now, did you settle upon rules and regulations or instructions to salesmen, apart from regulations to agents—A. Yes.

Q. Will you look at these rules and regulations and see whether that follows the general result of your discussion; that is what you agreed upon. I am told these are the regulations that were adopted?—A. They look like them, so far as I have gone.

By Mr. Factor:

Q. Does it look so unfamiliar to you that you have to read every line of it?—A. I would not want to—I did not even see these—

Q. Have you a copy of them?—A. No; I would not put out one like that.

By Mr. Sommerville:

Q. At any rate, these look to be like the regulations you agreed upon for the salesmen?—A. Yes.

Q. That was at your meeting when, in the early spring of 1934?—A. No; it would be late in the spring, just before the selling season started.

By Mr. Factor:

Q. Meeting of the association?—A Yes.

Q. Have you the minutes?—A. No; these are the minutes I have not got.

Q. Those are also minutes you have not got.—A. No; those are the only minutes we have not got, for the last meeting.

Q. Was it at the last meeting that everything was fixed up?—A. Yes, there has not been any meeting since.

By Mr. Sommerville:

Q. That was in what month, February, March or April?—A. I do not know when; I imagine it would be March.

By Mr. Ilsley:

Q. Who fixed those minimum prices before this year? Did not your association do it?—A. Never had been operative, no.

Q. Never had been operative?—A. No, they have been discussed, often.

Q. You have not been operating upon a minimum price during those few years?—A. No, operating on some awful prices, cutthroat business, you can imagine.

By Mr. Sommerville:

Q. At any rate these rules and regulations had been adopted, and then this statement appears:

> Agents trade discount or commission will be 5 per cent off the credit price of all makes of fertilizer and fertilizer materials;

A. Yes.

Q. Is that right?—A. Right.

Q. "And an additional 5 per cent or bonus based on the credit list price will be paid on all makes of fertilizers, 20 superphosphate." Is that right?—A. "Provided". I think, provided he maintains the selling schedule. Is not that there?

Q. Yes, there is a proviso. He had been getting for years 10 per cent as his commission?—A. No.

Q. For how long has he been getting 10 per cent?—A. It had been left pretty much in his hands, where he could get whatever he could, one per cent, two per cent, ten per cent, twenty per cent, and the result was the majority of the agents were quitting yearly, because they could not get their goods. A fight starts between three or four farmers' agents. If one can sell for 25 cents a ton, the other fellow will come along and sell for 10 cents, and he will do that for one year, and then you will need new agents the next year. We have tried to stabilize things by allowing a reasonable profit to the local agent which he will develop—

Q. You do that by giving him 5 per cent for the sale and an additional 5 per cent to be paid on the first of July, to dealers or agents whose accounts had been paid and providing the sales have been made by them at not less than the list price, cash or credit.—A. Yes.

Q. That is right?—A. Yes.

Q. They only get 5 per cent if their accounts are paid and they have maintained the list price?—A. Yes.

> Q. Where, however, the dealer or agent is paid on credit terms, or sent any customers' goods on credit terms, the bonus shall not be paid until full settlement in cash of all such accounts or goods have been made.

A. Yes.

Q. In other words, the agent is now carrying the credit, is he not?—A. I think he always has.

Q. He always has?

> The bonus will not be held back on the following: but will be deducted from the invoice at the time of the sale.

Now, let me understand this bonus. If a man sold for cash he would get 10 per cent, and he would send you in the full cash price. Suppose it was $46 a ton, he would send in the full cash price and then he would be sent back 5 per cent of it?—A. No.

Q. Would he not?—A. No; he would be invoiced with the full price less 5 per cent.

Q. He would send in the balance?—A. No.

Q. He would send in that money in cash?—A. Well, you see, so far as we are concerned, we would send a draft attached to the bill of lading or he would send the cash before he got the goods. If the price were $40 we would invoice the man $40 less 5 per cent, $38, which is the amount he would pay us, and we would ship him the goods

Q. Then you would hold back 5 per cent of his money until the first of July?—A. No, that is not his money; it will be when he has earned it.

Q. He has earned it by paying for it?—A. No, he has not.

Q. He has not earned it?—A. No.

Q. What has he got to do?—A. We want to maintain some semblance of orderly marketing, and if he won't help us to do it, we won't bonus him that extra five per cent.

Q. He has got that?—A. He has only made on an average 5 per cent in the years previous, and he has been lucky to make that.

Mr. FACTOR: Who invented the term "orderly marketing"?

Mr. SOMMERVILLE: Was it not the wheat pool that invented the term "orderly marketing?"

By Mr. Sommerville:

Q. Then, if he pays cash for the order and carries a customer's account, he gets what himself, what additional discount?—A. If he—would not get anything different.

Q. Does he not get $2?—A. He would buy at $38 and he would sell at $40. I am speaking now, if the price were $40 on the list.

The CHAIRMAN: How long is that $2 held back?

The WITNESS: Until the first of July.

Mr. SENN: On the spring sales?

The WITNESS: Yes.

By Mr. Young:

Q. On what terms is it restored to him; what are the conditions under which it is restored?—A. Provided he has sold it at $40.

Mr. SOMMERVILLE: Providing his own account has been paid.

The WITNESS: This would be his own account. That is a ton of goods he got. If we sold him a credit, we would invoice it to him at $40 less 5 per cent. If he had not paid $38 by the first of July we would not send him the $2 because he owed us the $38.

By Mr. Young:

Q. If he sold it for $39 you would keep the other $2, would you?—A. Yes, absolutely.

Q. He would be out $3?—A. If he is satisfied to work for nothing, why, all right. We are quite ready to let him do it.

Q. You take some more money out of him?—A. No, we are simply not going to pay him for performing something which he won't perform.

Q. This other $2 is not for selling the goods, and collecting the money, it is for maintaining prices?—A. Yes.

By Mr. Sommerville:

Q. Now, the bonus, however, will not be held back on the following firms, but will be deducted from the invoice at the time of the sale.

Then follows a list of nine firms. Why are they not held back on these firms when they are held back on all the rest of the firms in Ontario?—A. Well, you are giving me something now I do not know existed. I did not know anyone had any exceptions from that thing at all.

Q. Just look at your own regulations?—A. These are not my regulations.

Q. Well, your own association?—A. No, it is not association regulations.

Q. Whose are they?—A. I do not know who gets these out.

Q. What are the firms on which the bonus will not be held back?—A. It is evidently somebody in Toronto who is selling, distributors there.

Q. Yes. Are there any firms on your orders that the bonus would not be held back on?—A. Not that I am aware of.

Q. These firms are distributors are they not?—A. No, small buyers of package goods.

Q. Do not they sell large quantities?—A. I do not think so. I have never run across them anywhere around the country ever selling fertilizer in competition with our agents.

Q. These are the seed men?—A. Yes, but they are selling package fertilizer, half pounds, one pound, and five pound cartons.

Q. They sell 100 pound lots, they are agents?—A. No, no agents at all. They are simply buying and selling package goods.

Q. I do not care whether they are selling package goods or carload lots—A. We are not dealing in package goods.

Q. Your firm is not?—A. No.

Q. But the association firms do some?—A. Some of them.

Q. This intimates that with respect to all other firms that may be affected, the bonus of 5 per cent will be held back to see that they are good boys, but with reference to the nine firms the bonus is not to be held back. That is what it means, is it not?—A. I would say yes.

Q. That is a bonus to them as agents?—A. No, they are not agents.

Q. I can readily understand it?—A. No agents, nor do they undertake to develop any business at all. They are putting in their windows a certain quantity of package goods to sell to the florists and housewife and one thing and another like that, and probably Eaton's may have displayed in their window that stock, but they are buying that outright.

Mr. Edwards: In bulk?

The Witness: No, in packages, different cartons for window display, fertabs, and one thing and another.

By Mr. Ilsley:

Q. They get 10 per cent?—A. Plant packages. C.I.L.

By Mr. Senn:

Q. The price at which they sell would be away beyond the bulk price?—A. Yes, three times.

Q. It is not a case of price maintenance at all?—A. No, not price maintenance at all.

By Mr. Ilsley:

Q. You say the bonus is not held back, but they get 10 per cent discount?—A. They would get 10.

Q. In addition?—A. Yes, I imagine from that—I did not know that existed—I imagine they are dealing with that as package goods, and that is all I can think it applies to.

Q. What is the reason for giving them 10 per cent when the agent only gives 5 per cent?—A. They are buying this package goods, small packages goods. Instead of it selling at $40 a ton, it probaly sells for $120, if they take a ton, but they only want maybe 25 pounds, 5 pound packages or a 10 pound package.

By Mr. Sommerville:

Q. You do not mean to suggest to this committee that is the way that Eaton's buy anything, 5 pound package?—A. Maybe not; pretty nearly on that

basis, but I think I would be safe in saying they would not run over just the odd ton, certainly not in carload lots.

Q. You know this, Mr. Smith, they would not let you keep back their bonus until the first of July and therefore they are excepted from the list; is not that a fact?—A. No; if we were doing business with them, they would do it my way, or they would not do it at all.

Q. You are not doing business with them?—A. No, and never tried to.

Q. Then is there any connection between American firms that supply materials going into fertilizers and the Canadian firms?—A. No, I don't think there is, other than that American agricultural—or at least, that Agricultural Chemicals, Limited. That is a subsidiary of an American company—no, American Agricultural Chemicals. It has probably thirty or forty or fifty plants in the United States.

Q. Are there any other subsidiaries in this country of American fertilizer companies?—A. I don't think so; not that I know of.

Q. Are there any companies in this country that are owned or controlled, or partly so, by any of the American firms, that you are aware of?—A. No, I don't think so.

Q. Do you know of any arrangements made by your association with any of the American manufacturers of fertilizer materials not to sell to any but mixing firms in Canada?—A. No. Such arrangement never exists.

Q. Is there any co-operation of any kind between your association and the American firms?—A. No.

Q. Or with any firms?—A. No.

Q. What is meant by this minute of the formal meeting of your association on the 24th of November last, over which you presided, and introduced Mr. W. D. Huntingdon of the American Cyanamid Company, who outlined their plans of closer co-operation with the industry for the coming spring season? What was the closer co-operation outlined?—A. I have never seen any of it.

Q. Well, what did he outline?—A. He didn't outline anything other than that he was—they have always been selling us cyanamid from a manufacturing standpoint. They are also manufacturers of ammophos, a combination of ammonia and phosphates.

Q. What was meant by this, outlining their plans of closer co-operation? Did that mean, Mr. Smith, that the Cyanamid Company agreed not to sell to firms outside of your association?—A. No.

Q. Was there any suggestion or discussion of that?—A. Not that I ever heard, at any time.

Q. Was there any request of any kind to that effect?—A. Not by the association.

Q. Or any members of the association, that you are aware of?—A. There may have been from members, I don't know.

By Mr. Ilsley:

Q. Were you present when that gentleman was there?—A. Yes; so was Dr. Christie and so was the deputy minister.

Mr. SOMMERVILLE: No, I don't see them here. They attended the luncheon later, but they were not in on this.

The WITNESS: Well, may be I am mixed.

Mr. SOMMERVILLE: When you adjourned for luncheon from your session, they came in; but the only business of the morning, according to this minute of the meeting which was called to order at 10 o'clock, was the "Chairman, A. L. Smith, introduced Mr. W. D. Huntington of the American Cyanamid Company, who outlined their plans of closer co-operation with the industry for the coming spring season. General discussion followed." Then, "on the suggestion of the

Chairman, Mr. Huntington outlined at length the operations of the N.R.A. and the Fertilizer Code as it affected the industry. General discussion followed, after which the meeting adjourned for luncheon at the King Edward hotel," and that is when a number of people came in.

By Mr. Ilsley:

Q. Were you discussing a code for Canada then?—A. No.

Q. What were his plans for co-operation? You must have some recollection of his speech? He was making a speech on plans for co-operation?—A. Frankly, I don't recall anything. I didn't even know that was in the minutes. I don't recall one thing of any closer co-operation ever being discussed.

By Mr. Sommerville:

Q. It might just as well have been left out of the minutes, as far as you are concerned?—A. It might just as well. I certainly do remember him talking about the code, because he gave us an hour's talk on that.

Mr. Kennedy (*Peace River*): How long did the meeting last?

Mr. Sommerville: The meeting lasted from 10 until the adjournment for lunch, whenever that was.

By Mr. Factor:

Q. You don't remember anything that was said about closer co-operation? —A. No.

Q. You don't remember anything?—A. I am sure there was not any discussion like that.

Mr. Factor: The minutes say so.

Mr. Sommerville: And these minutes are signed by you.

By Mr. Ilsley:

Q. What interest had his talk about codes for your association?—A. We were very closely associated in the results obtaining from any codes in the United States as well as in Canada. We are very closely, not allied with them, but affected by anything that affects them. If the price of some of these materials which we purchase in the United States were to be affected to the extent of $3 or $4 or $5 a ton, we would be immediately affected, because we have got to purchase them. And what I drew from his talk was that we could look for higher prices if the code got into operation over there.

By Mr. Sommerville:

Q. You remember that?—A. That is about the N.R.A.

Q. But I would like to know if you can tell us what closer co-operation he proposed for the coming spring season?—A. No. You have got me floored there. I have not got the slightest recollection of anything like that.

Mr. Factor: It is rather peculiar.

By Mr. Ilsley:

Q. There was a gentleman here—I think it was the last witness—who talked about nitrate of soda selling for $50 by somebody, and being purchasable for $41 from somebody else. Did that have any relation to the co-operation at all? —A. No. They are not handling any of that, the Cyanamid Company. They are manufacturing cyanamid, which is a nitrogen carrier; but it is not nitrate of soda. There is nothing in common between the two, other than that they would both be used to derive nitrogen in a mixture.

By Mr. Young:

Q. You get your raw material from Montreal, do you?—A. No. Sometimes it comes through New York, sometimes from Baltimore.

Q. When it comes from New York, how do you get it? By what?—A. From New York we used to bring it up through the Erie barge canal. Of course we would have to consider some other source to-day, because we could not unload a barge at our plant.

Q. Generally you get it from Montreal?—A. No. We have brought most of it up through Baltimore and New York in the years gone by.

Q. By the barge canal?—A. Yes, the barge canal and rail.

Q. But you say you can't do it any more; you bring it by rail now?—A. Yes, by rail. We brought it by rail the last couple of years.

Q. What I want to get is this: In bringing it from Montreal by rail or from New York by rail, there is a carload rate from the shipping point to, we will say, Toronto. You have a factory located in Toronto?—A. No, at Welland ours is.

Q. We will take it at Welland, then. Then there will be another carload rate from Welland to, we will say, Palmerston, where you are going to unload?—A. Yes.

Q. Is there not a through carload rate from the shipping point to Palmerston, the ultimate destination?—A. Yes, but you would not ship that product in that way.

Q. What I want to get is this: Will the sum of the two separate rates be greater than the through rate from New York to, we will say, Palmerston?—A. Oh, yes.

Q. It will be greater?—A. Yes.

Q. Then the fact that you have stopped that on the way to mix it will necessitate a higher freight rate, will it not?—A. Yes, surely.

Q. Does it not follow that your factory is located in the wrong place?—A. Well, every place would be wrong on that basis, unless all buyers lived in the one point. We have got to meet all these people who are spread out over the province of Ontario. I think we are geographically well located.

Q. Would that give the factory located at Montreal the mixing plant there, an advantage over your plant?—A. Yes.

Q. They have an advantage?—A. Oh, yes.

Q. In location?—A. Yes, undoubtedly.

By Mr. Sommerville:

Q. Now, I observe that in your meeting of June 15, 1933, held in the Royal Connaught hotel, a question of brands for fall was brought up for discussion, and the following were approved:

0—12— 5	2—12—6
0—12—10	2—16—6
0—12—15	3—10—5
0—14— 6	4—12—6

A. Yes.

Q. According to these minutes?—A. Yes.

Q. Then, what minimum price did you set on those brands at that time?—A. When was that?

Q. June 15, 1933?—A. I don't know whether I have a record of that or not.

Q. Here it is here?—A. It would be worked out on that scale that you have, or a similar scale to that.

Q. It would be worked out on a scale similar to that?—A. Yes.

Q. And the price would be agreed upon for these eight brands?—A. Yes.

By Mr. Senn:

Q. As the minimum price?—A. As the minimum price.

By Mr. Sommerville:

Q. There is no reference to that here; there is no minimum price on the minutes?—A. No, it would not be necessary.

Q. That would be understood?—A. No, it would be worked out. Each one would work out the amount under the scale. You work that out, and that is your minimum price.

Q. You get a scale?—A. Yes.

Q. Who supplies the scale?—A. Well, we have decided on that after figuring and working it out.

Q. When you mention "we", who do you mean?—A. All of us together.

Q. You mean the association?—A. The association, surely.

Mr. Ilsley: When was that?—A. That is an important date, it seems to me.

Mr. Sommerville: June, 1933, was when they settled on the prices for these brands.

By Mr. Ilsley:

Q. You just told me that you didn't have any minimum prices until this year, until 1934. Did you misunderstand my question?—A. That is 1934 he is working on there.

Mr. Sommerville: No.

Mr. Ilsley: No, that is 1933.

Mr. Sommerville: That was June, 1933.

The Witness: I don't know about that. I don't think there was any price at that time.

By Mr. Sommerville:

Q. Were there not any prices agreed upon last year?—A. I don't think so.

Q. Are you sure, Mr. Smith?—A. Yes. I know there were none maintained.

Q. I don't care whether they were maintained or not?—A. I know that.

Q. But were they not agreed upon at the time when these brands were agreed upon?—A. No, that had nothing to do with the prices at all, as far as that is concerned. It is on the recommendation from the O.A.C. as to what the brand should be for that fall.

Q. When was that scale worked out?—A. I think it would be March.

Q. Of 1934?—A. Yes.

By Mr. Sommerville:

Q. So that then you say this is the first year upon which you have had any minimum prices fixed?—A. No. We have had understandings previous to this, but they have never been very satisfactorily maintained.

Q. The difference between what happened before and now is that they are being maintained this year?—A. Well, from the evidence you are giving me now, I am beginning to think they are not.

Q. But you thought they were?—A. I thought they were.

By Mr. Ilsley:

Q. When did the understanding start? When was the first one?—A. I think it was March of this year. Now, I think we may have discussed it after the fall.

Q. Mr. Smith. I have difficulty in getting you to stick to one thing. First you said there were no minimum prices set until 1934. Then, in answer to Mr. Sommerville, you said in June, 1933, there were minimum prices set?—A. No.

Q. You changed that later?—A. No.

Q. You changed that and said there were not, and you said just now that there were understandings from time to time but they were not satisfactorily maintained. I say when was the first understanding of minimum prices?—A. Probably two years ago.

Mr. Sommerville: For the spring of 1932?

The Witness: I think that would be the first, yes.

By Mr. Ilsley:

Q. You are quite sure that is the first?—A. No, I am not sure.

Q. It may have been before that?—A. It may have been 1931.

Q. It would not be at the beginning of your association?—A. Oh, no; no, no.

Q. It would be later than 1929?—A. It would be two years after we were operating.

Q. It would be 1931 at the earliest?—A. It was, offhand, 1932.

Q. Now, may I call your attention to the fact that from 1931 until now there appears to be no record in the minutes of any understanding about prices, although there must have been one for each year of two or three years.

Mr. Kennedy (*Winnipeg*): Is it customary to put things like that in minutes?

Mr. Ilsley: That is what I want to get at. Is there some reason for keeping this understanding about prices out of the minutes and out of existence so far as records are concerned?

The Witness: There naturally would be, I would imagine.

Mr. Ilsley:

Q. You mean you would not want to make any record of that sort of thing?—A. I know I tore my records up when I was through with them.

Q. I wonder if the others did the same; if they tore their records up?—A. No, Mr. Sommerville has copies there. I work on a different scale than anyone else. So I could easily tear mine up and be through with it.

Q. Is there any reason for secrecy between the fertilizer companies fixing minimum prices for this territory—A. Any more than there would be secrecy for ordinary business dealings that you would not publish to the country at large, certainly.

Q. You would not publish to the country at large that you have this agreement between each other about fixing of minimum prices?—A. I think that has been known since this existed.

Q. It was from 1931 or 1932?—A. 1932, I think.

By Mr. Edwards:

Q. You would not broadcast that you had minimum prices?—A. No, that would not be business.

By Mr. Factor:

Q. You association was formed on the 3rd of January, 1929?—A. 1929, yes.

Q. And was there no minimum price fixed when your organization was formed?—A. No. It was two or three years after that before there was any thought or discussion of it.

Q. What was the object of forming the association?—A. Just what it says in there.

Q. I mean outside of this, I mean the real purpose of the association?—A. The real purpose was there in the minutes of the first meeting.

Mr. SOMMERVILLE: Just to get together like good fellows.

The WITNESS: Dr. Christie had asked us to do something. We could not operate with him unless we had some semblance of an association.

By Mr. Kennedy (Peace River):

Q. Why would not you advertise that you agreed on a minimum price? Would it not all come out anyway in the price lists? We had a farmer here the other day who said that the only difference in the price lists was the colour of the paper?—A. He was a little wrong in that.

Mr. SOMMERVILLE: He had not seen your price list.

The WITNESS: No, evidently.

Mr. SOMMERVILLE: He had only seen all the rest of them.

The CHAIRMAN: It does not alter the very difficult and stubborn fact that the growers seem to be the victims of higher prices west of the deadline at Kingston than east of that line. There seems to be no explanation of that; no satisfactory explanation. And the impression the growers give to the committee is that they are unfairly penalized. They think the prices they are compelled to pay are too high. Of course, that is a thing which this committee is concerned with: if the grower in regard to fertilizer and other things that he uses is a victim of understandings and controls that are not fair and open and frank, this committee has got to take cognizance of it; and I think the committee will agree with me that there has been no satisfactory explanation of the growers' complaints in this regard.

The WITNESS: I thought I had explained practically that difference.

The CHAIRMAN: No. The only answer you gave, I submit, Mr. Smith, in all fairness, was that you certainly did not want to produce fertilizer at the price it was sold at in Quebec?

The WITNESS: No. It could not be done.

The CHAIRMAN: Now, that answer does not appeal to me, and I question if it appeals to my colleagues; because we know that at least two very outstanding, shrewd, competent firms are producing it and selling it, and we certainly know that Canadian Packers and C.I.L. are not in the business for their health.

The WITNESS: I agree with you there, but I think I can quite frankly say that the losses incurred in doing that are enormous.

The CHAIRMAN: Show me some of their losses; give us some evidence.

The WITNESS: I will give you evidence on our own lack of profits in Ontario at the higher price.

The CHAIRMAN: We will listen to that. I do not want to shut you off; but that is not an answer.

The WITNESS: I cannot give you an answer on others, but I am perfectly sure from this that if I had to take those prices the picture would be so bad that we would not long exist. We could not.

Mr. SOMMERVILLE: Perhaps you could do this for the committee; file with the committee the breakdown of the costs showing the spreads between prices paid for the commodities and the price at which the commodity is sold?

The WITNESS: That is the only cost book we have ever had for all the years. I do not want to leave it with you.

By the Chairman:

Q. Did I understand you to make this statement: We will take one of your own members because you must be familiar with them. We will take the Can-

adian Packers that sell in Ontario at a certain price and in Quebec at a certain price. You declare the Quebec price is such that it would be destructive of the business?—A. Yes.

Q. Now, you say that the Canadian Packers are deliberately slashing their prices in Quebec below the cost?—A. They must be doing it. I know they are doing it.

Q. Your opinion is that they are cutting the prices below the point of cost? —A. No. They are meeting the competition of a concern that came over here from Holland and put up a plant down at St. John or Levis or some place below Montreal with the idea that they could do this business at a certain price. They undertook to do it. They are meeting that competition, I believe. I am not operating there. I do not know exactly what they are up against, but I believe that is where it started. Now, there is a certain amount of pride in certain manufacturers that do not want to be beaten by the other fellow and let the public know it. They will go on and operate it; and I am frank in stating—I have it on the authority of Mr. McLean himself—that they are losing money and losing it fast.

By Mr. Kennedy (Peace River):

Q. Who is this firm from Holland?—A. What do they call themselves; I think it is the International.

By Mr. Sommerville:

Q. International Fertilizers, Limited, at St. John, New Brunswick.—A. Yes.

By Mr. Young:

Q. Are they still operating?—A. Yes.

Q. And making a success of it?—A. I wouldn't think so.

By Mr. Senn:

Q. What is to hinder them sending their goods into the west?—A. Nothing in the world; I don't even know them; I simply know them by reputation.

Q. If they are competing in Quebec why are they not competing with you here?—A. I think they have all they can do to handle down there. I would imagine it looks to me like a little scrap on in Quebec.

Mr. Bell: I think they are working in connection with the Quebec organization; there are three or four new plants started down there and the Intertional is one of them, and my belief is that they are working in conjunction with the Quebec institutions.

The Witness: I do not know; I am not conversant with it.

Mr. Young: Are they only operating in Quebec?

Mr. Bell: I think they have a branch in Quebec.

Mr. Young: Apparently they are making a success of it.

By Mr. Sommerville:

Q. This is the break-down of your cost?—A. This can only be our estimated costs. We can never know what it costs us to-day until it is completed. That would be our estimated cost at the start of 1934. We won't know till we get to the end of our fiscal year, September 30th, how our estimate works out. But unfortunately we have too many times found that the estimate was wrong in that we did not take cognizance of some things.

Q. I would prefer that you take your own cost book, Mr. Smith, and submit to the committee the costs of your various mixed fertilizer and how you have made them up.—A. I suppose in doing that there is no chance at all of my giving away any secrets of the trade elsewhere.

Q. There is no desire to do anything like that, Mr. Smith.—A. The formula for fertilizer is not the same with all of us; we have an entirely different formula than someone else arriving at the same thing.

The CHAIRMAN: We have to respect that request, because we cannot consider giving away one man's formula to any of his competitors.

Mr. SOMMERVILLE: Under no circumstances.

By Mr. Kennedy (Winnipeg):

Q. That is a break-down of your cost for 1934, but you could give us the exact cost for 1933?—A. Yes. This is the figure of 1933 costs, estimated, if we can maintain that same ratio for 1934, and we arrive at a price on that taking the average of the last few years.

Q. Yes, I understand that, but these are estimated costs for 1934. However, you can give us your exact costs for 1933?—A. That would look very much worse because the tonnage was down in 1933; this is better.

Q. I know, but supposing we get 1933, whether they are good or bad?—A. Yes, that is what this would be. This 1934 would be the actual cost of materials that enter into these goods.

Q. But it is an estimate for 1934?—A. Yes it is. We never will know what 1934 is until it is completed, but this is based on 1933.

Q. Yes, you have told me that three times, and I heard it the first time. Let us leave 1934 for a minute. You can give us a statement of what your actual costs were for 1933?—A. Yes.

Q. Well, let us have that too?—A. Surely.

Q. And your price list and selling price for 1933 and 1934?—A. Yes.

By Mr. Kennedy (Peace River):

Q. I understand you are charging from $1.50 to $2 a ton more for your fertilizer than some other firms?—A. Yes.

Q. For a fertilizer of the same formula?—A. No, no.

Q. A different formula?—A. Yes.

The CHAIRMAN: His is the best on the market, of course.

By Mr. Kennedy (Peace River):

Q. I thought you were manufacturing to a certain standard?—A. Well, there is a difference, and if it would not tire you any I would like you to read that, without publishing any names. You have heard that man here I think, and you have absolute confidence in him. He is the biggest buyer of fertilizer in Canada.

Mr. SOMMERVILLE: This is a letter of recommendation from a man who has been buying fertilizer.

The WITNESS: He could save $10,000 a year and buy his materials to make his fertilizer if the figures that have been submitted to you are correct.

By Mr. Kennedy (Peace River):

Q. Is your firm an Old Country concern?—A. We are originally an Old Country concern, Alexander Cross & Sons, of Glasgow, Scotland. Each organization is formed separately. Our parent people have been in the business for probably three or four generations.

By Mr. Sommerville:

Q. Perhaps you could tell us this, Mr. Smith, before you leave: Do any of the fertilizer people take crops of fruits or vegetables in payment of their fertilizers sold to the farmers?—A. I never heard of it until I heard it in the evidence the other day.

Q. All right?—A. I had made some notes if I can find them. I think I would like to answer some statements that were made.

The CHAIRMAN: All right, Mr. Smith.

The WITNESS: There was a statement made that there was a black list.

By Mr. Sommerville:

Q. Yes, a statement was made that a black list was in existence?—A. Such a thing has never even been discussed at any meeting.

By Mr. Young:

Q. A meeting of the association—A. That is, a black list such as is mentioned in that, but we do take information regarding the men who, by experience, have been proven dead beats or as near to it as they can be.

By Mr. Sommerville:

Q. You exchange credit information?—A. Yes.

The CHAIRMAN: A sort of dark grey list?

The WITNESS: It is a red list with us.

The CHAIRMAN: It is an exchange of information. I do not see any objection to that.

By the Chairman:

Q. Is there anything else, Mr. Smith?—A. Yes. Would you care to have some figures regarding our financial set-up I am speaking of our company now.

Q. All right?—A. We have an authorized capital of $500,000 paid up $160,000 actually. Originally it was $200,000; we reduced it to $160,000. We have operated since 1922 successfully right down to the present date. In the year of 1922 there was no profit, no loss, but there was enough operating profit for $4,835 for depreciation.

Q. What year?—A. 1922. And 1923 no profit, nothing for depreciation, but a loss of $5,724; 1924 the same thing, nothing to provide for depreciation, a loss of $5,922. The next year 1925, just enough to write off $1,300 of depreciation. We took no profit at all. Otherwise, if you had that plant costing over $100,000 rented you would have got $1,300 rent for it that year. Then there are a few years—5 years—in which we made a little profit, enough to take care of depreciation and a profit to reserve.

By Mr. Kennedy (Winnipeg):

Q. That is, of course, a profit over all salaries?—A. Oh, yes. I will speak on the salaries afterwards. If we had to depend on salaries we could not live.

By the Chairman:

Q. All right, Mr. Smith?—A. We made a profit in the years 1926, 1927, 1928, 1929 and 1930, and understand in the year when we were making a profit and paying dividends was when this association was formed; there was no occasion for trying to get more money; we were making a fair thing at that time. In fact, we paid three dividends of 8 per cent. Since 1930 we have continuously shown losses. We have provided nothing for depreciation; we have shown a loss of nearly $10,000 in that period. If we were to take into consideration when we were writing that balance sheet, the list of accounts receivable as 100 cents on the dollar it might be a different story. I am not showing you any names but I am showing you this list and there are 23 pages of accounts receivable in fertilizer in the province of Ontario contracted prior to us going on a cash basis three years ago.

By Mr. Sommerville:

Q. That would indicate the farmers are in rather a bad way.—A. They were when they were making lots of money. They contracted these accounts in the years when they were selling 50 cent tobacco, a dollar and a dollar and a half wheat.

By Mr. Young:

Q. Did you sell any of that to wheat growers?—A. Oh yes. I think that the greatest portion of the trouble is that the farmer is just now learning how to live.

By Mr. Sommerville:

Q. What do you mean?—A. Within his means. For two or three years he continued to live on a high standard of living when he was not able to meet his expenditures.

By Mr. Senn:

Q. Would you care to give us the information about your salaries?—A. Yes, I will give you the total of the salaries in our organization.

By the Chairman:

Q. Tell us what the executive salaries are, how it relates to your expenditures.—A. In percentage?

Q. Yes.—A. I would have to figure that. You mean executive?

Q. Yes.—A. Well, I am the only executive so I would have to tell you my salary, just myself and two girls in the office; the rest are salesmen out on the road.

The CHAIRMAN: Very well.

Mr. SOMMERVILLE: That is not necessary.

By Mr. Kennedy (Winnipeg):

Q. That long list of accounts receivable that you have not succeeded in collecting, were they incurred by the supersalesmanship of the salesmen or were the farmers anxious to buy?—A. They were probably as anxious to buy as we were to sell at that time.

Q. Have you endeavoured to collect those accounts?—A. Yes, we have endeavoured to collect them.

Q. Well, are these farmers all judgment proof?—A. In a great many cases, yes absolutely; if they have a loan from the Agriculture Development Board they are unapproachable by anyone at this time.

Q. Because that loan comes first?—A. That loan, of course, only gets the same security as any other mortgage until there is something past due. Immediately then they take a chattel mortgage on everything he has including the crop, growing crops and everything, to cover the full amount of the mortgage, and then they sit there and carry him for two or three years without him paying one cent of interest or taxes.

Q. Then we may take it that that long list of 23 pages of farmer debtors or organizations are practically all execution proof?—A. Most of them are.

By Mr. Sommerville:

Q. You cannot collect them?—A. Well, I believe many will in time be collected. We have not written them off yet and we are not going to write them off, but if a man has abandoned his farm and has gone we write it off as a bad debt.

By Mr. Kennedy (Winnipeg):

Q. That would certainly show that the farmers generally are in a pretty bad condition?—A. Yes.

By Mr. Kennedy (Peace River):

Q. The statement was made that they were living beyond their means.—A. When those debts were incurred they were.

Q. That was during the years 1925 to 1930?—A. Yes.

Q. And then you went on a cash basis?—A. Yes.

Q. And you are doing better?—A. We have incurred no more bad debts.

Q. Have your sales been curtailed any?—A. Our business this year will be 25 per cent above last year, and last year showed quite an increase over the previous year showing that there must be some improvement in agriculture, or at least we are picking the good ones, I don't know which it is.

Mr. Kennedy: Perhaps they found you easier to stand off before.

By Mr. Sommerville:

Q. The agent is taking the chance; that is what you are talking about?—A. No, there is no agent of ours ever taking any chance, I don't think.

Q. Does he get an additional amount if they pay cash?—A. The man who gets the fertilizer has to pay cash. We will ship our agent a car of goods with a draft attached to the bill of lading. If he has not the money he goes to the bank and the bank will advance him the money with which to lift the draft. He collects from the man when he comes to the car for the goods.

By Mr. Kennedy (Peace River):

Q. Your statement about \$2 wheat might require a little qualification. Not every farmer got \$2 for his wheat?—A. I said \$1.50 wheat.

Q. Not every farmer gets it, even if wheat is \$1.50 a great many of them don't get it—they have crop failures even with fertilizer?—A. That might be, too.

By Mr. Sommerville:

Q. Can you tell us the amount that these accounts represented?—A. I could not tell you, I could only give you an estimate on that because you cannot total up the particular list, there are so many of those who have reported—we report to a central agency, my list goes in there, and somebody else's list goes in, and it is combined into one list and sent out to each one of us. Some of them have reported, from \$50 and over, and I know of one instance where it was \$1,000 instead of \$50. But estimating I would say it was about \$500,000.

By Mr. Young:

Q. What percentage would that be of the total sales?—A. About 50 per cent of one year's sales.

Q. Do you mean to say that—

The Chairman: No, no, this is accumulative.

The Witness: This is the accumulation of two or three years—possibly 3 years' accumulation.

By Mr. Young:

Q. In a good year what percentage of your sales were not collected?—A. About 50 per cent were taking credit, and about 50 per cent were taking advantage of the cash discount.

By Mr. Kennedy (Winnipeg):

Q. What amount not collectable?—A. I don't know, we tried to collect the following year, and the year after that.

By Mr. Kennedy (Peace River):

Q. What percentage of the value of your business do these uncollected accounts represent?—A. That is not ours. I could tell you ours.

Q. That is not yours?—A. That is all the fertilizer business in the association.

Q. How much do these uncollected claims represent?—A. About half a million dollars.

Q. It seems to me rather a strange thing, you can give that information so accurately, but when it comes to any question relating to this misunderstanding, you don't remember a thing. It seems to me you have the poorest memory for a Scotchman that I ever heard tell of?—A. I am not a Scotchman, don't accuse me of that; I am a Canadian.

Q. For a business man of any kind you have a mighty poor memory.

The CHAIRMAN: Is that all, gentlemen.

All right, Mr. Smith, let's get along.

The Witness was discharged.

The CHAIRMAN: The committee will stand adjourned until 10.30 o'clock in the morning.

Mr. ILSLEY: What is on in the morning?

The CHAIRMAN: One more witness on this, and then we are going into rubber.

The Committee adjourned at 5.40 p.m. to meet again on Tuesday, May 22, 1934 at 10.30 a.m.

House of Commons, Room 368,

May 22, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 10.30 a.m., the Hon. H. H. Stevens presiding.

Mr. Norman Sommerville, K.C., of Toronto, appeared as counsel for the committee.

The Chairman: Order, gentlemen. The minutes of yesterday's morning and afternoon sessions indicate the witnesses that were heard and certain exhibits filed. I will declare the minutes approved.

Mr. Sommerville: I think the Canadian Industries, Limited, desire to be heard with reference to the question of fertilizer raised by the growers. Mr. Grubb.

The Chairman: To-day we were to have started hearing some of the rubber industry. These people not having finished, we will finish with Mr. Grubb this morning. I would like to suggest that the witnesses might help us a little more than we were helped yesterday by witnesess, by giving us rather prompt and frank answers. It was a little annoying, sometimes, when a witness would keep us sitting here while he was digging for information which could very easily be given. So if the witness will co-operate, it will be helpful.

Reginald Grubb, called and sworn.

By Mr. Sommerville:

Q. On Friday and yesterday you heard statements made by the growers and some fertilizer men. We would like to have some information from you, Mr. Grubb, with reference to this subject matter. First of all, your company is Canadian Industries, Limited?—A. Yes.

Q. Where are your plants located?—A. We have plants at Hamilton, Ontario, Beloeil, Quebec.

Q. One at Hamilton, Ontario, and one at Beloeil, Quebec?—A. Yes.

Q. Yes?—A. Halifax, Nova Scotia, and New Westminster, British Columbia.

Q. And at all of these plants, do you manufacture fertilizer?—A. Yes, we do.

Q. And at all of these plants do you mix fertilizer?—A. We do, yes.

Q. To all of these plants you bring in some of the ingredients of the fertilizer?—A. We do, yes.

Q. And in some of these plants you manufacture some of the fertilizer which is used by you?—A. At all of the plants we make mixed fertilizer. It is a case of mixing.

Q. Mixing?—A. Yes; and at two of our plants we make superphosphate, which we consider a manufactured fertilizer.

Q. Superphosphate?—A. Yes.

Q. That is made at Hamilton and at Beloeil?—A. Right.

Q. And superphosphate is made from the use of sulphuric acid with what other constituent?—A. Phosphate rock.

Q. With phosphate rock?—A. Yes.

Q. And you have large quantities of sulphuric acid at both of these plants, Hamilton and Beloeil?—A. That is not quite correct.

Q. Is it not?—A. No.

Q. At Hamilton, then, you have large quantities?—A. At Hamilton we manufacture sulphuric acid.

Q. And I understand that in the process of manufacturing sulphuric acid you must practically continue your plant's operations continuously?—A. That is a 24-hour operation.

Q. And it is a year-round operation?—A. If possible.

Q. What I mean is that a sulphuric acid plant is, in a sense, not unlike a battery; when you set it up and let it lie idle it deteriorates very rapidly, does it not?—A. Sulphuric acid would.

Q. The plant, I mean, that manufactures it?—A. It would.

Q. So that for the most effective and efficient manufacture of sulphuric acid, it is desirable to keep your plant going continuously on a 24-hour basis and for as many days of the year as possible?—A. That is correct.

Q. I presume with that being so, you have a very large production of sulphuric acid?—A. In that connection, at Hamilton the fertilizer division does not use all of the output of the plant. Our plant there is operated by our heavy chemical division. We get what we require. At Beloeil— By the way, in connection with your request, Mr. Stevens, that we rather get along with the job, I don't want to alter the general proceedings of these meetings, but I have made quite a few notes here, and I really think we would get along faster with the job if I explained the mooted points, and then let you question me. I am quite willing to go either way.

Q. I am quite prepared to come to that, but I want to clear up this question of superphosphates which appear to be such a large factor in fertilizers?—A. O.K.

By the Chairman:

Q. You just finished part of an answer?—A. Yes.

Q. You said something about Beloeil, or you were starting to say something about Beloeil. Will you finish that sentence?—A. At Beloeil our plant is primarily explosives, for the manufacture of explosives. We have, as a by-product, sulphuric acid. At one time, we didn't have that as a by-product, because we were making all our nitric acid from the weak sulphuric acid. We now make it from the air. So when we had an excess of weak sulphuric acid at Beloeil we looked around for some use for it, and we decided to manufacture superphosphate. So that at Beloeil we have a certain tonnage of weak sulphuric acid at an extremely favourable price to the fertilizer division. We take it from the explosive division at their actual handling cost, which I may say is under $2 per ton. I will be glad to give the committee the exact figure.

Q. That is sulphuric acid; you take it at under $2 a ton?—A. Yes. If I may go a little further on this, I think I can possibly clear up a point. I don't want to be too windy, but I do believe if we throw the cards on the table, gentlemen, face up, we will get along better.

The CHAIRMAN: It will be a new experience for us.

The WITNESS: I will be delighted to do it, Mr. Stevens. We have nothing to hide.

By Mr. Sommerville:

Q. All right, Mr. Grubb?—A. The Canadian Industries, Limited, went into the fertilizer business in Eastern Canada entirely on account of this weak sulphuric acid we had at Beloeil.

Q. Which was a by-product?—A. Yes, which was a by-product. We are not allowed to throw it in the river, because it will kill the fish. There was no market for it. It was so weak we would have to build a plant to handle it. We had it on our hands.

Q. Incidentally there was that same situation at Hamilton; you had an excess over your ordinary chemical requirements at Hamilton?—A. I would not put it exactly that way. We have at Hamilton an acid plant. If it operates at 40,000 tons a year, we can naturally make it a little cheaper than if it is operating at 20,000 tons a year; the more we turn out, the cheaper we can make it. Our raw materials run along just the same. So that our costs at Hamilton are an entirely different picture to what they are at Beloeil.

Q. But your sulphuric acid is manufactured at Hamilton not primarily for fertilizer, but as a by-product?—A. Not as a by-product, in any way, shape or form.

Q. At Hamilton?—A. It is not a by-product.

Q. Don't you manufacture more in your plant in Hamilton than you require for your heavy chemicals?—A. No. The heavy chemical division manufacture for us such quantity as we tell them we can use in the manufacture of superphosphates. They don't manufacture any more than they can market.

Q. They regulate their production of sulphuric acid for heavy chemicals to the amount of their requirements plus what you require for fertilizer?—A. That is correct.

Q. And by the increased production you say you get a reduced cost on the whole?—A. We would, yes. Might I continue my story there to clear up that point, because I find that I was not satisfied with the evidence to date. It does not seem to be exactly face up on the table, and we want to put it there. We went into the manufacture of fertilizer just on account of the weak sulphuric acid. According to the government figures, we found that there was about 100,000 tons of superphosphates imported annually into Eastern Canada, none being made there, so we decided that it was a fair undertaking, a new industry to go into. Superphosphates come into Canada, as an ingredient, duty free. We faced that fact at the start. However, we investigated the prices at which superphospate was freely selling in the United States and in Canada, and decided that we could make some money in the manufacture. We put up a modern plant. But when we began to manufacture, the word was passed to us that our friends to the south did not intend to give up their trade in Canada, that they would drop prices to meet anything we made, irrespective of our prices or the Canadian regulations. Knowing that they could not go quite as far as that—

By the Chairman:

Q. Who are "our friends to the south"?—A. The United States manufacturers, chiefly Baltimore and Buffalo.

Q. Duponts?—A. Duponts are not in the fertilizer business.

By Mr. Sommerville:

Q. Phosphates?—A. They are not in the phosphate business. They do not make superphosphates.

By Mr. Factor:

Q. Who is the chief manufacturer of phosphates in the United States?—A. There are five or six firms down there. There is the Standard Wholesale; there is Baugh Chemical. I have some of their balance sheets here, and I can give you a few of the names. The American Agricultural Chemical; Virginia-Carolina Chemical; International Agricultural Corporation.

By the Chairman:

Q. Those are the main ones?—A. Those are the main ones.

By Mr. Kennedy (Peace River):

Q. Davidson?—A. Yes, Davidson.

By Mr. Sommerville:

Q. Yes, Mr. Grubb, proceed?—A. When they began to reduce prices, we came to Ottawa and asked to have a fair market value established, plus a reasonable profit, as in section 36 (2) of the Code.

Q. That is to say, you asked that a value be put on it to prevent dumping?—A. That is correct. We were successful, and the duty was established.

Q. Or rather a value was established?—A. A value was established.

By Mr. Ilsley:

Q. Were they offering that in Canada for less than they were offering it in the United States?—A. Yes. In that connection, they were offering it for less than the general price in the United States. Here is where I think some of the investigators have some trouble. When they go out there, we will say they go to Davidson's, for example. Davidson will turn up an invoice that he has sold some superphosphate in bulk to Jim Smith & Co. If the records are investigated, it will probably be found that Jim Smith & Co. is owned by Davidson, or partially owned by Davidson; so they are able in isolated instances, possibly, to show a selling price in the United States which would compare with what they shipped it for into Canada; but as a general practice, I should definitely say no.

By Mr. Ilsley:

Q. I gather it is a disputed point, from what you say?

By Mr. Edwards:

Q. That is a common practice, is it not?

Mr. ILSLEY: Just a minute. I asked a question.

Mr. EDWARDS: Go ahead and ask any question you want to. You are asking all the time. I very seldom ask one.

By Mr. Ilsley:

Q. What is the answer?—A. I am afraid I have forgotten the question, due to the interruption.

Q. The question I put was this: I gathered it was a disputed point?—A. Well, I think it is, for this possible reason: The value that we had established—and incidentally we undertook with the government that we would not increase the price of superphosphate in Canada in the event of any ruling that was given—the value that was established lasted one week, and it was wiped out and has not been re-established. So that we are now left with our superphosphate plant, and unfortunately meeting prices that are netting us heavy losses.

Mr. SOMMERVILLE: Where was this?

The CHAIRMAN: In Quebec.

The WITNESS: And Ontario.

By Mr. Sommerville:

Q. Then, with regard to this price which you say lasted one week—how long ago was that?—A. It was either 1931 or 1932. In my notes further along I can give you the exact date.

Q. At any rate, it was several years ago?—A. Yes.

Q. As a result of representations made, a certain valuation was fixed?—A. Yes.

Q. And as a result, apparently, of certain other representations, that valuation was wiped out?—A. Yes.

Q. And there was no valuation; nor has any valuation been in existence for several years on the imported product other than that which is shown by the invoice as it comes in?—A. That is all.

Q. That is the situation?—A. Yes.

Q. So that you are meeting that competition from the United States in superphosphates?—A. And Europe.

Q. And Europe?—A. Yes.

Q. On the invoice price of those commodities?—A. That is right.

Q. And you have not been able to bring to the attention of the department, apparently, any cases of a character that indicated that there was deliberate evasion in the matter of prices?—A. I have brought it to the attention of the department.

Q. In the last two or three years?—A. Yes. But naturally we don't see their findings. We merely know that no action is taken. I am not finding fault with the department. They may have good and sufficient reasons. They have not been tabled, to my knowledge.

By Mr. Ilsley:

Q. Did you ever have a tariff or duty on superphosphates?—A. We did originally, but we found we were up the wrong tree, so we asked for 36 and 2.

Q. Has there not been a recent application for a 15 per cent duty on phosphates?—A. Not to my knowledge; and I think we would be the only people that would apply.

Q. Is there nothing pending before the Tariff Board?—A. No.

Q. Or the Minister of Finance?—A. No; the only thing we have is that we are still persisting in our request that the goods be not dumped into Canada. We have not given up on that yet.

By Mr. Sommerville:

Q. All right. Proceed, Mr. Grubb?—A. Well, if you want me to proceed, so as to clean the thing up, I would suggest that we proceed along the lines of the memorandum that was put in by the growers. Incidentally we have every sympathy with the growers. I made a note or two in connection with that. I find we have many things in common. We are both losing money. We are both selling at too low prices. We both have associations where we get together and discuss our problems. We both agree on selling prices. So I should say that that ragged army that was mentioned here—that when the growers really see our side of the picture, they will welcome us as brothers in that ragged army, and will not figure that we are opposition.

Q. Where did you get the impression, that they meet and agree upon prices? Where have you ever heard of a growers association that ever agreed upon any price and ever put it across?—A. Well, I gathered that. I didn't say they put it across. I said that the evidence was that they are all selling to the different canners at the one price.

Q. They have to take what is given them. It is not they that fix the price. It is the buyer—the tobacco man or the canner?—A. Well, possibly so. We pretty much have to do that.

Q. There is a little difference?—A. We pretty much have to take what we can get.

Q. All right. Now, let us get on?—A. Proceeding along this line, if it is agreeable to the Committee, a question was raised as regards the buyer being able to buy materials in the open market.

Q. Yes?—A. I will begin with superphosphates. I would like to see an order from anybody in Canada with the ability to pay, who wants to buy superphosphates from me, and I will very gladly sell to him.

Q. May I ask this: Are these elements of fertilizers sold on the credit basis or are they sold on a cash basis?—A. We will sell them both ways.

Q. My information is that mixed fertilizers are sold on a credit basis, but as regards the ingredients, the companies insist upon getting cash; and that is one way in which they discourage the purchase of ingredients and this practice of mixing your own, as it is called?—A. Speaking for Canadian Industries, Limited, we will sell ingredients or mixed fertilizers for cash or on time. If we sell them on time, naturally credit approval must be obtained from our credit manager. But it is no harder to get credit approval on the ingredients than it is on mixed fertilizers.

By Mr. Factor:

Q. We have had evidence—I don't know whether your firm were concerned in it—but someone gave evidence that they could not buy mixed fertilizer east of the Pembroke line in order to ship it west of the line?—A. I will come to that a little later, if that would suit you just as well.

Mr. Factor: That will be all right.

By Mr. Senn:

Q. I have to leave shortly, but before I do I want to ask a question just along that line. Is there an agreement between C.I.L. and the International Company by which the International keeps out of Western Ontario east of this line?—A. There is no agreement.

Q. There is no agreement of any kind?—A. None whatever.

Q. Nor understanding?—A. Nor understanding, no.

By Mr. Sommerville:

Q. While you are dealing with that, may I ask if there is any association of fertilizer men east of Montreal—Montreal and east?—A. There is, yes. We have no name for it. We gather together when we find things of mutual importance. We discuss prices. We discuss analyses of fertilizers, try to standard our brands. We discuss the railroad versus truck situation, and we discuss matters quite similar to what is discussed in that western Ontario association. We have a similar organization in British Columbia, and we have a similar organization in the maritimes. The last three named—the maritimes, Quebec and British Columbia—we have no name for. We have no president for them. We don't call anybody the chairman; although at the meetings in Quebec and in the maritimes, any meetings I have attended I have been chairman.

By Mr. Kennedy (Peace River).

Q. Who calls them?—A. Anybody that has anything particular to discuss. Incidentally, I will state that, as general manager of the Canadian fertilizer division, I know the general policies. You may ask me some question of detail that I might not be familiar with. However, I will do the best I can.

By Mr. Factor:

Q. Approximately how many fertilizer manufacturers are there in Canada, outside of the Eastern Canada Fertilizer Association?—outside of the group contained in that association?

Mr. Sommerville: Perhaps Mr. Grubb will give them to us in areas.

Mr. Factor: In sections.

Mr. Sommerville: The sections that form these groups.

By Mr. Sommerville:

Q. We have already had eastern Canada. Will you be good enough to give us the Quebec group?—A. Yes. Canadian Industries, Limited; Canada Packers; International Fertilizers, Limited; they are at Quebec.

Q. At Quebec?—A. Yes, that is their head office.

By Mr. Factor:

Q. Pardon me for interrupting, but is that the same firm that you are referring to, the International?—A. The same one, yes. And A. Lavigeur of Montreal.

By Mr. Sommerville:

Q. Is that manufacturer or dealer?—A. Manufacturer.

Q. In Montreal?—A. Yes.

Q. Those are the four firms in the province of Quebec?—A. Right—and one other. We always forget one of our little friends, Agricultural Chemicals, Limited.

Q. They are also in Western Ontario?—A. They have a plant at Port Hope.

Q. They have a plant in Quebec?—A. No.

Q. They have not any plant in Quebec?—A. No.

Q. But they do distribute in the province of Quebec?—A. Yes.

Q. Then, as a result of this association, or these meetings that you referred to where you discussed prices, have you a uniform price list in the province of Quebec, similar to that which is filed for western Ontario?—A. We have a Quebec price list. Just what you mean by uniform and similar, I don't know. We have a schedule there, where we sell to the dealer, the consumer—the merchant's price, the consumer's price and general set-up of the schedule along similar lines.

Q. And the schedule is a schedule based not in actual figures, but on the same basis as we had given us by Mr. Grose?—A. You mean on that?

Q. On that plan?—A. A different plan.

Q. Well, it is probable the figures may vary, but the scale—?—A. You mean the key?

Q. The key?—A. It is entirely different.

Q. It is an entirely different key?—A. Yes.

Q. But you have some key?—A. We have a key.

Q. You have a key?—A. Yes.

Q. And from that key each manufacturer works out a minimum price?—A. Yes.

Q. And that is by reason of this understanding among you?—A. Yes. Would you like to know how that key works?

Q. Well, I am not particularly interested in that just at present?—A. Well, all right. My point is that I have nothing to hide; and when you ask about keys, I don't wish to be evasive, and I will carry on as far as you like.

Q. We have got the association or the group in Quebec. What about the maritimes?

By Mr. Factor:

Q. One question there: Do all the members of the Quebec association follow the same price list, the fixed price list?—A. There is a minimum price list in Quebec.

Q. And all the members adhere to it?—A. They are familiar with it. I hope they do.

By Mr. Kennedy (Peace River):

Q. What is the difference between a minimum price and a fixed price?—A. Anybody can charge more if he can get it.

By Mr. Sommerville:

Q. Now for the maritimes?—A. Canadian Industries, Limited; Canada Packers; International Fertilizers; Colonial Fertilizers; Summers Fertilizers—they are at St. Stephens; and over on the island, the Island Fertilizer, on Prince Edward Island.

Q. Those fertilizer companies meet in a similar manner, without any officers?—A. That is right.

Q. And without any association name?—A. That is right.

Q. They meet from time to time?—A. Yes.

Q. To discuss the same subjects; prices, terms and conditions?—A. Yes.

Q. And do they have a similar key schedule on which to base their prices?—A. They do, yes. At these meetings we have had two other organizations sat in on occasion. One was the Prince Edward Island potato growers, Mr. Bolter; another was Mr. Margison of the New Brunswick—I forget their name; and there is Associated Shippers of Prince Edward Island.

Q. The price list which they get out is based on the same scale as the minimum price list?—A. Yes.

Q. Agreeable to all?—A. Yes.

Q. And I suppose the same pious hope is expressed that they follow it?—A. Correct.

Q. Then in British Columbia the association is made up in what way, or rather the group?—A. Canadian Industries, Limited; P. Burns & Company; Globe Fertilizer Company and Buckerfields, Limited.

Q. And a similar policy is adopted there?—A. Yes.

Q. And a similar minimum price is agreed upon?—A. Right.

Q. And similar practices approved of, uniform practices in the handling of your fertilizer?—A. Yes. I won't say uniform throughout Canada. The general idea.

Q. No, but uniform for that area?—A. Yes.

By Mr. Kennedy (Peace River):

Q. What about Trail Smelters?—A. They have not sat in on any of our meetings.

By Mr. Sommerville:

Q. Is there a prairie section?—A. No.

Q. The prairie section is supplied from which association or which group?—A. Until a few years ago the prairies did not use 100 tons of fertilizer a year, of chemical fertilizer. In the last few years, Trail have put on some very intensive advertising campaigns, trying to educate the prairie farmer; and the prairie farmer to-day is using some of the highest analysis fertilizer—triple superphosphate, ammophos—made at Trail, and fertilizers which will carry freight rates, will stand heavier freight rates. Low grade fertilizers cannot very well be marketed on the prairies and shipped from far distant points.

Q. With reference to the price list, will you be good enough to file the price lists of these various sections: The maritimes, Quebec and the West?—A. I can give you printed copies of the maritimes, I think—I am not sure if I have the maritimes or British Columbia with me. I will be glad to file them. They are not printed except by the typewriter. I will be glad to file them.

Q. Perhaps you can tell us now what are the prices for the maritimes on the fertilizer 2-12-6? We have had a price on Ontario of $34.65; a price in Quebec of $25; what is the price in the maritimes? Your folder is limited to Ontario?—A. Primarily. I can give it to you in general first, and I will be glad to file the price lists. In the maritimes we have a delivered price, and the delivered price in the maritimes, I should say, is approximately the same as the

Quebec price. We sell different analysis fertilizers in the maritimes to what we do there, but on a similar analysis it would practically be the delivered price instead of the factory price. In other words, if the Quebec price on 2-12-6 is $25, I should say in the maritimes it is probably $25 delivered. On the whole, the maritime prices are lower than the Quebec prices.

By Mr. Ilsley:

Q. Then the delivered price in the Maritimes is the same as the f.o.b. factory in Quebec?—A. I should say approximately.

By Mr. Sommerville:

Q. Well, at that rate then, the delivered price in the Maritimes is from $9 to $12 or $15 less than the delicvered price in Western Ontario?—A. No. I think I can show you that the price in Western Ontario is not $11 higher than the price in Quebec.

Q. But you have indicated that the other price, in the Maritimes, is the same as the f.o.b. price in Quebec?—A. That is right.

Q. And whatever that delivered price in Ontario is in relation to the f.o.b. price, that is the difference in the Maritimes?—A. That is correct.

Q. And at present, on looking at it, it seems to be a price difference of from $9 to $15?—A. There has been—it has been testified here—

Q. Exclusive of freight; no, including the freight?—A. It is my understanding that the difference is reported to be approximately $15 higher in Ontario than in Quebec.

Q. From $9 to $15, according to the fertilizer?—A. All right, from $9 to $15.

Q. And that situation would prevail as between the Maritimes and Ontario?—A. All right; of course, if that spread is correct.

Q. I understand your explanation, that that includes the freight?—A. That is right.

Q. What is the other price, in British Columbia?—A. In British Columbia? We have a price in the zone around Greater Vancouver where all the Chinese and Japanese are farming.

Q. Market gardening?—A. The price in the zone based on the cartage rates that we can get. If our plant is here, we have a ring around that, and we sell anybody around that for a dollar—but if they want to come to the plant they get the dollar.

Q. A dollar a ton?—A. In the Okanagan country it is a delivered price. Up in that country we are in competition with the Trail people. They don't go to the Coast. They say that the price up in the Okanagan is so and so, and we say fine.

Q. How does the price in the Okanagan valley compare with the price in Quebec or the Maritimes, the delivered price in the Maritimes—approximately. Is that not a lower price than in the Maritimes?—A. No, I would not say so; I would say it was higher.

Q. To what extent?—A. As a matter of fact we have a different commodity in British Columbia than we have in the East. We can practically push all the fertilizer business in British Columbia.

The Chairman: They are easier out there.

The Witness: Possibly, Mr. Stevens; we both live there so we ought to know. In the East we have lost heavily.

By Mr. Sommerville:

Q. Is that because you have two definite zones and your deliveries are limited to these zones, one around Vancouver and one in the Okanagan?—A. No, we have at the plant approximately the same deliveries—our shipments

into the Okanagan as compared to our shipments around Vancouver; in other words, our Okanagan price is the Vancouver price, plus freight approximately.

Q. How does your Vancouver price compare with your Quebec price, the f.o.b. price?—A. I would not like to answer that from memory, I will file a price list.

Q. All right, thank you Mr. Grubb, if you will proceed?—A. Fine. Nitrate of soda. I am discussing the ingredients that incidentally are so hard to buy I understand. Superphosphate: In addition to my being willing to sell it I wish some method could be fixed up so that my friends to the South and everybody else could be stopped selling it. I do not see how anybody in Canada could say it is hard to buy superphosphate for his own use, or for mixing purposes.

Nitrate of soda: Not produced in Canada, it is a world commodity. It enters Canada duty free. I have circulars on my desk from jobbers in the various cities offering to sell me Nitrate of soda. I know of no pressure of any kind ever being brought to bear on the Nitrate of soda people to only sell through the dry mixers.

By the Chairman:

Q. Of course, Mr. Grubb, that would not affect the plight of the grower; he could not go and buy it, that is out of the question?—A. I think he can in carload quantities; that is, 15 tons.

Q. We are really concerned about the ordinary dirt farmer who cannot buy Nitrate of Soda from abroad?—A. No, but he could buy it from Baltimore or New York.

Mr. FACTOR: The chief complaint is on the mixed fertilizer rather than on the ingredients.

The CHAIRMAN: We will take it for granted then that he can buy it.

The WITNESS: In carload lots, he can buy it economically—that is 15 tons.

By Mr. Ilsley:

Q. That is important to the Annapolis Valley, N.S.?—A. Could they handle 15 tons.

Q. I would say 5,000 tons?—A. There is nothing to stop them buying it freely; but not for mixing purposes.

By Mr. Kennedy (Winnipeg):

Q. You mentioned that they could bring it in from New York. Could they buy from domestic jobbers here without buying direct?—A. I should think so.

Q. Do you know?—A. For instance, do you know Barrett, the jobber; I think Barrett would sell Nitrate of Soda in carload lots.

By Mr. Edwards:

Q. Would the large chemical houses sell it?—A. Very definitely. Chemicals Limited I know have handled carloads of Nitrate of Soda, yes. They do not need to buy it from the industry.

Sulphate of Ammonia is, we will say, a very important ingredient. It is manufactured in Canada, two plants in Hamilton, one in the Sault, one down in Sidney, one at Trail in British Columbia, and at the present time there is a plant in Ottawa and at Montreal, both of which to the best of my knowledge are closed; I am sure about the one in Montreal—because the price is not attractive. Sulphate of Ammonia enters Canada duty free, and is a commodity which can be bought in any market. Naturally, it would have to be bought in carload lots. Now, Potash is a very necessary ingredient.

By Mr. Sommerville:

Q. Yes, Muriate of Potash?—A. Muriate of Potash and Sulphate of Potash. At one time the "N.B." potash—a French and German syndicate had a corner on it, but it can now be bought freely, it enters Canada duty free and can be bought at two places in New Mexico (I am talking about producing points), one in California, France, Germany, Spain, Russia and Palestine.

By Mr. Edwards:

Q. Palestine is getting very large, isn't it—the production of potash?—A. Quite true, but I should say New Mexico and California are larger; California leads.

By Mr. Factor:

Q. Are Canadian importers bringing in any of this Palestine potash in any considerable quantity?—A. We brought in some Palestine potash two years ago. We did not bring in any last year as far as I know, that is all that has come to Canada.

By Mr. Sommerville:

Q. While you are dealing with Potash I see that your Ontario price on Muriate of Potash, the credit price is $62 per ton, and your Quebec price is $51.50; and on the Sulphate of Potash your Ontario price is $72 and the Quebec price is $58. What is the cost of Muriate of Potash, there must be a very large spread there surely?—A. No, I think I can explain that to you. There is one thing we must remember, that our Quebec schedule is f.o.b. the factory, and our Ontario schedule any place in Ontario—to the farmer's barn—we do not always get the advantage of a carload freight rate.

Q. I quite appreciate that. You have a delivered price in the Maritime, so you have comparatively the same basis in Ontario and in the Maritime, instead of Ontario and Quebec; or a delivered price in the Maritime—why should you deliver in the Maritime?—A. Have you the comparative costs?

Q. The comparative costs?—A. With the price in the Maritimes where we have lost to competition.

Q. Why the discrepancy; that is what the committee would like to know? —A. We will come to competition in a moment. Our plant at Halifax is right on the water. I put the stuff right off the boat into the plant. At Quebec and Hamilton I have to tranship at a cost of $2 or $3 per ton more than in this country.

The next item which I sell in my ingredients is Cyanamid procurable direct from the American Cyanamid Company, and at the same meeting the impression I got from the side lines there, was that we had brought this official of the Cyanamid Company to work for us.

Q. That was the minutes of the meeting which stated that a representative of the Cyanamid Company had appeared before that meeting and explained the course of co-operation he proposed between your association and the Cyanamid Company?—A. That is right. I was not at that meeting, but I was at the luncheon, so I did not hear the remarks he made at that meeting. Within the next day or so Mr. Frost, the Cyanamid salesman, called on me in Montreal and told me what he had proposed at the meeting. We all use Cyanamid in a powdered form in the manufacture of our mixed fertilizer. Within the last few years, the Cyanamid Company have brought out Cyanamid in a pellet form which can be used by the fruit-growing industry instead of Sulphate of Ammonia.

Q. What do you mean by "pellet"?—A. Just the same as B.B. shot, little round pellets. He came in to explain to me that they had put on an expensive advertising campaign, and would like to get our co-operation pushing the sale of cyanamid, that he would be glad to include it in carload lots with our finer material, our powdered material; that he was carrying a stock in Montreal on

which I could draw, or that he had stock in Ontario. Now, I think the minutes of that meeting, judging from the conversation I had with Mr. Frost, were rather badly worded.

By Mr. Kennedy (Peace River):

Q. I understood from the minutes that he came up to talk social co-operation, and the interpretation of the evidence given yesterday by the witness was that he was giving a nice little talk on the results of the N.R.A. I never heard co-operation explained in that way before?—A. I was there when the N.R.A. was discussed, and Mr. Huntington, manager of the American Cyanamid Company, gave us a speech on the workings of the N.R.A. in the United States; incidentally, I might say he was very much opposed to it; but it did not relate to the talk he had previously given on cyanamid. It was more on the general workings of the N.R.A. Now, I think the next point possibly would be—unless there were some question to be answered—the next point would be in connection with this Northumberland County Purchasing Committee.

Q. Did you deal with sulphate of ammonia?—A. I did.

Q. I beg your pardon?

By the Chairman:

Q. Before you leave the question of these ingredients, could you tell the committee the cost of the production of super-phosphate in Quebec as compared with Hamilton?—A. Yes, our phosphate rock comes from Florida.

By Mr. Kennedy (Winnipeg):

Q. From where?—A. From Florida. We have had some from Morocco, but at the present time I have 20,000 tons on the way up from Florida. We landed at Sorel and transhipped to Hamilton and Beloeil. It costs us laid down in our plant approximately the same. The mixed ingredient, sulphuric acid product, that I make in the way of super-phosphate, is 20 per cent strength—P. 205—the difference in my acid cost is $4 per ton in the case of our 20 per cent super-phosphate.

By Mr. Sommerville:

Q. What do you mean by the " difference "?

By the Chairman:

Q. You mean, that the Hamilton plant costs you $4 per ton of super-phosphate more for your sulphuric acid than it does at Beloeil?—A. That is right; if a ton costs me $10 to make at Beloeil, it costs me $14 at Hamilton.

By Mr. Edwards:

Q. What is the difference between what you call weak sulphuric acid and strong sulphuric acid?—A. I am not a chemist, do not get me too badly mixed up. We figure our sulphuric acid on a basis of 100 per cent strength.

Q. That would be ·825?—A. That is right.

Q. What would be the specific gravity, do you know?—A. You know more about specific gravity than I do. We get it at about 62 per cent strength in Quebec, a weak acid; while at Hamilton we make an acid that is 93 per cent, and we have to dilute it down to the same strength as that of our acid at Beloeil.

By Mr. Young:

Q. Does it cost you more at Hamilton?—A. Our manufacturing costs at both plants—I will be glad to turn them into the committee—are practically identical. Both at Hamilton and Beloeil we have identical plants, with the exception that at Hamilton we could turn out twice as much if the market was there for it.

By Mr. Factor:

Q. I do not quite follow you, where does that $4 difference come in?—A. In our Hamilton plant we manufacture acid for the purpose of making superphosphate. At Beloeil it is a waste product and it is turned over to us direct at the pipes, at the cost of transferring it by pipe where it is sent over to our plant.

By Mr. Sommerville:

Q. Somewhere about $2 a ton?—A. Yes, sir, less than $2 a ton, I will give you the figures.

Q. Your sulphuric acid at Hamilton cost you something less than $6 a ton?—A. At Hamilton?

Q. Yes?—A. I did not say that.

Q. You say it costs $4 a ton to produce sulphuric?—A. I said, per ton of super-phosphate.

Q. I beg your pardon.

By Mr. Young:

Q. What are the factors that make up $2?—A. In making sulphuric acid we have to burn sulphur and catch the fumes. It is a very complicated process. I am sorry that I am not sufficiently familiar with it to explain it in detail. But I should say that the average going price for sulphuric acid net under our present basis, which is the basis we always discuss it on, is in the neighbourhood of $16 to $18 a ton to-day. Now, at Beloeil, we get it for less than $2.

By Mr. Edwards:

Q. Less than $2 per ton?—A. Per ton of 100 per cent acid at Beloeil.

Q. I thought it was $2 per ton less than at Hamilton?—A. No, less than $2 per ton. I have no objection to telling you that I pay for sulphuric acid at Hamilton $12.75 per ton.

By Mr. Sommerville:

Q. You pay to your plant?—A. $12.75 per ton. I am willing to give this committee any information it desires, but occasionally there may be something I might not want my competitors to learn. We will be glad to file it, I have no particular objection to that.

By Mr. Ilsley:

Q. The whole difference in the cost of manufacturing superphosphate is due to the difference in the cost of sulphuric acid?—A. In the manufacture of superphosphate in making 100 pounds you need 60 pounds, leaving 40 pounds of 100 per cent acid.

By Mr. Young:

Q. What is the condition of this acid?—A. It is liquid.

By Mr. Ilsley:

Q. That is, it would be 40 per cent of your $12?—A. That would be $4. Now, on this Northumberland County order, and price spreads: to begin with, I think there is a little misunderstanding; I thought that pressure was brought to bear in connection with this order this year on account of the difference in our price schedules in Eastern Ontario versus Western Ontario. I think the statement was made here that the Co-op. Fédérée refused to ship an order west of Kingston, and I gathered the impression that it was to the Northumberland County Purchasing Committee.

By Mr. Sommerville:

Q. Yes?—A. That is correct, isn't it?

Q. I believe so?—A. Now, I am reported—have you a copy of the letter, is it fair for me to ask—they said a letter was written turning the order down.

Q. There is a letter, I have seen it, but I do not know whether we have it here, or whether it was taken by the gentleman who had it?—A. Was the order through the Co-op. Fédérée?

Q. I could not guarantee that?—A. That was the testimony.

Q. I can't say that off-hand?—A. My point is this: on my return to Montreal over the weekend I asked the Co-op. Fédérée if they had heard from the Northumberland County Purchasing Committee, or if they had received an order and turned it down. They referred to their files to show that they really did not know the people, they had had no correspondence with them, and they had never seen the colour of an order. I then rang up Canada Packers to see what they knew about it. They knew nothing. So I rang up Mr. Lavigueur and he said yes.

Q. Lavigueur, who is he?—A. He is one of our little associations down there.

Q. The one for whom Mr. Hunt gave evidence of?—A. Mr. Hunt gave the evidence. Incidentally, he is a member of the Purchasing Committee; and in the final analysis C.I.L. got the order, so I have full particulars here. I rang up Mr. Lavigueur and asked him about it, and he said, yes, we had correspondence with them, but I never received the order; and he said, here is what I wrote—I will read it if you like:—

Mr. Walter H. Smith,

Agricultural Representative of Northumberland County,
Brighton, Ont.

Dear Sir,— Answering yours of the 10th instant, we regret to advise you that the brands 2-8-10 and 9-5-7 are not registered, and as the selling season is at an end the sales which could be made would not permit to make an expense of $60 for the registering of these two brands.

Mr. Lavigueur is a Frenchman, and his language may not be quite correct. Mr. Stevens, I may say in connection with registering that each manufacturer registers with the government the brands he is going to sell. If it is 2-8-10 it costs us $30. He could not sell without registration.

By the Chairman:

Q. You register 2-8-10?—A. Mr. Lavigueur could not use my registration, he must register.

By Mr. Factor:

Q. Could he register if he wanted to go to that expense?—A. He could, $30. It costs $10 for each plant food. 2-8-10 has three plant foods and costs $30. 0-12-15 would be two plant foods and would cost $20.

Furthering to my letter March 7th, I exceedingly regret to have to withdraw my offer of selling you fertilizers.

The main reason is that the roads around Montreal are all blocked for trucking, and most of my goods are sold delivered to farmers' barns by truck, and they will not be opened for 2 or 3 weeks yet, and having an extra large quantity of tons to deliver by trucks, the factory being overfull, I find that I have all the orders I can handle this spring, besides we have yet many hundred tons to mix and we have no storage place as we have shipped only a few hundred tons this winter, I cannot see my way in taking new orders.

This summer I am to enlarge my plant, and will call on you early next fall, and hope to do business with you in future.

Regretting very much the circumstances in not being able to accept your order, I remain,

Yours very truly,

(Sgd.) ARTHUR LAVIGUEUR.

The reason I am bringing that up is on the side lines I got the impression that it was due to pressure that the Montreal supplier had withdrawn, but I don't think that indicates any pressure.

By Mr. Sommerville:

Q. You say that is the only one you have any record of?—A. I think that is the only one.

Q. That is not the letter I remember seeing?—A. I see.

By Mr. Ilsley:

Q. What I was going to say is, could you ship to any point in Ontario at your f.o.b. Quebec price?—A. I would not.

By Mr. Sommerville:

Q. Why not?—A. Could not afford to.

By Mr. Ilsley:

Q. Your main effort to-day is in your Quebec business?—A. I have got up a statement here which I think will clear up that point.

By the Chairman:

Q. This letter seems to me to be a very poor explanation of what Mr. Hunt said. I have just been looking for the exact quotation; but from memory Mr. Hunt indicated that the Northumberland County growers, a very substantial body of users of fertilizer, had approached a Quebec firm for fertilizer and seemed to be encouraged to believe that they could get it. A couple of weeks afterwards they were notified, this apparently is the notification—but there is no indication in it as to what the difference would be in shipping a carload of fertilizer by rail?—A. Incidentally, it was more than a carload; it was 85 tons.

Q. Which could be best shipped by rail?—A. Yes, sir. The legitimate mixers can get their ingredients and mix them together, and they had to be put in bins to allow them to cure—Mr. Smith testified three months' curing, I am willing to admit that with our equipment and with our excellent Super-Phosphate we can cure in very much less time, from 4 to 6 weeks. Mr. Lavigueur has a trade contiguous to Montreal which he feeds by contract. He collects orders in the fall, and he delivers them at the end of March, April and May. His plant was full to the guards—I have been in it—I wish I could store as much in as small a space as he does; and when it comes to taking on some new orders, an order that he received in March which he would have to ship to Northumberland County in the course of 20 days; in the first place he has not the room to put it down to cure it, and possibly had not made arrangements for the additional raw material. He could not take that order in March in his plant because the cure would take from six to eight weeks, and he had to look after his local trade. In addition to that, as he points out, two of the brands were not registered by him, so he would have to put up another $60.

Q. They were registered by you, he could get them from you?—A. No, sir. Each of us must register our own, and dig up our own $30.

Q. You could have sold him?—A. I would have sold him if he had come to me.

Q. Would you sell in Northumberland County?—A. I do sir, I have the invoices right here.

Q. I thought you said you would not sell?—A. I sold him at the factory price; it is not $11 though.

By Mr. Sommerville:

Q. Mr. Grubb, you are giving us this evidence to indicate that Mr. Lavigueur's reasons were as indicated in his letter, and not a refusal to sell in the Ontario territory. You heard the evidence of Mr. Craise?—A. Yes.

Q. Mr. Craise is a fertilizer man?—A. Possibly, I don't know.

Q. Do you mean that as a compliment, or as an insult?—A. Certainly not as an insult.

Q. You say, "possibly"; he has been in the business a long time?—A. Yes, he is not in the business to-day; I am not sure that he is familiar with the existing conditions in the business up to date.

Q. He is carrying on business and has his price lists, and is selling all over Ontario, and has been for 20 odd years?—A. He is a fertilizer's jobber at present.

Q. Yes, but why do you say "possibly" when I say he is a fertilizer man.

Mr. FACTOR: Not a member of the Association.

Mr. SOMMERVILLE: He is not a member of the Association, I beg your pardon.

Mr. EDWARDS: He is not a mixer, he is a jobber.

By Mr. Sommerville:

Q. I don't know what you mean by "mixer," it is all right. You heard his statement when he was asked as to whether you can buy in Quebec and ship to Ontario, and his answer was, well just try and buy it. Isn't it a fact that you could not buy from any member of your association in the province of Quebec at Quebec prices, cheaper than the Ontario prices, f.o.b. in Quebec and ship into Ontario?—A. I can only answer for myself there. We would not accept an order for shipment west of the Kingston line. What the other members of the association would do would be their own business.

Q. Why?—A. Because the matter of costs do not permit. I have a statement here which I can give to you.

Q. As a matter of fact, you know that the other members take the position that you do?—A. No I don't.

Q. Is that not one of the things that you discuss when you get together?—A. It is not.

Q. And you have never discussed the question of shipping into Western Ontario?—A. We have not.

By the Chairman:

Q. Who fixed this Kingston line this mysterious Kingston line?—A. I did. You have got the right man.

By Mr. Sommerville:

Q. We know who did it now. Why does everybody accept the Kingston line, part of the association's plan?—A. I don't think they like it. Let me explain.

Q. They may not like it, but they have taken it?—A. The Kingston line is not mysterious. I will explain it. When we began manufacturing in the province of Quebec, we figured that we had sufficient weak sulphuric acid to make up a given quantity of superphosphates. We figured we had enough to look after the Quebec requirements. The first price list that I brought out, which I think was in 1931—

By Mr. Factor:

Q. Was that the time the Kingston line was fixed?—A. No.

Q. When was the Kingston line fixed?—A. When I thought I had too much superphosphate in the province of Quebec.

Q. What year was that?—A. Our first price list was in 1930.

By Mr. Sommerville:

Q. The first price list was in 1930?—A. Yes, and my line was the Quebec line.

Q. The Quebec border?—A. The Quebec border.

Q. Yes, proceed?—A. I found that I was not able to market all of my superphosphate in the province of Quebec, either as such or in mixed fertilizers. So I decided I had better extend it as far as I could. Consequently, I think it was two years later, I think it was 1932—answering your question—that price list does not show. It merely says Quebec. It does not say the year, but I can give you that from my records.

By Mr. Factor:

Q. It is 1932 that you fixed this Pembroke-Kingston line.—A. Yes. I fixed that for this reason: As far as I could find out, there were approximately 1,000 tons of fertilizer used in that section of Ontario between Kingston and the Quebec border, and I decided I had sufficient superphosphate at the moment to look after that trade. I had obligations in the province of Quebec with the largest buyer, the Co-Op. Federee; I was tied up with them with a contract to keep them supplied, and I could not keep myself short. Consequently I found the freight rate from the Hamilton plant to Kingston is $3.10 a ton; the freight rate from the Beloeil plant to Kingston is $3.10 a ton, so it looked like the logical breaking point, and I had sufficient. This year conditions in the province of Quebec have improved, and I was left high and dry. I had to bring from Hamilton, and accept a loss on about 1,500 tons of superphosphate, to my Beloeil plant, in order to live up to my contract. Now, as to whether or not next year I will be able to maintain the line at Kingston, or have to drop back to Brockville or Ottawa, I don't know.

Q. Will you elaborate a little more on the fixation of the Pembroke-Kingston line?—A. Yes.

Q. What were you motivated by?—A. I had more superphosphate, my chief ingredient, in the province of Quebec than I had a market for; and I found that this district used approximately my surplus. So by referring to the freight rates, I found that if my plant costs were equal, I could go to Kingston at a rate of $3.10.

By the Chairman:

Q. You said your plant costs were not equal?—A. They are not.

Q. You said there was a $4 differential?—A. In superphosphates.

Q. That is what you are talking about?—A. Yes.

By Mr. Sommerville:

Q. And relatively so in other ingredients?—A. In ingredients.

Q. In the proportion of superphosphates?—A. Yes.

Q. In the other ingredients?—A. And the other ingredients, yes; in manufacturing costs, no.

By Mr. Ilsley:

Q. It is not relatively so in the other ingredients surely?—A. I am willing to say this: I agree at Hamilton I am a little farther from the water than I am

at Beloeil. I am dealing in general terms. I can get sulphate of ammonia at either plant approximately the same; potash at either plant, not a great deal of difference, because when I bring it into Hamilton, I will bring it in by water.

By Mr. Sommerville:

Q. The differential is very slight?—A. It does not amount to enough to bother this committee with. But there is one other difference I would like to point out. If you will note on my price list there, for Ontario we have 21 brands of mixed fertilizer listed. In Quebec we have 6 brands. One of the mottoes behind all of our organizations is standardization. In Ontario three years ago we had 82 brands commonly being sold on the market. With the assistance of Guelph and among ourselves, we got that worked down, so that commonly we are now selling around 27 or 28 brands. We definitely list 21. That means that we must have those 21 brands in bins, cured and ready for shipment. In Quebec we have got 6 brands.

By Mr. Factor:

Q. Are there not 6 brands among the Ontario brands similar to the six in Quebec?—A. Quite right.

Q. And is there not a spread of price between Quebec and Ontario which is not accounted for yet, as far as your evidence has gone?—A. That is correct.

Q. Outside of freight?—A. That is right. The point that I am making is that in our factory costs we have to provide more ingredients, more space, and it costs us more money to manipulate and have in stock 21 brands than it does to have 6 brands. I will file the costs with the committee. My relative additional cost in Ontario is one dollar a ton.

By Mr. Sommerville:

Q. That is because you have got 21 brands in Ontario; you say that it costs a dollar per ton to carry the 21 brands, over the carrying of the 6 brands?—A. No, carrying has nothing to do with it. We don't charge interest in our costs.

Q. What is the one dollar for?—A. The addition would be in power. I should think part of it would be in power. Labour, I should say, would be approximately the same; and I should say the prime reason is that I have to carry ingredients to make up 21 different mixtures as against 6 mixtures.

Q. And your price would be as much as one dollar per ton on that?—A. I will file my costs. My remembrance is that it was $1.02.

By Mr. Factor:

Q. Those 6 brands in Ontario similar to those in Quebec cost you a dollar a ton more to manufacture?—A. Yes.

By Mr. Ilsley:

Q. I don't think you have told us the difference in costs per ton to this difference in the cost of superphosphates. Would you take an ordinary brand and say what difference in cost there is in a ton due to that?—A. Yes. I would like to pass this out, and you can possibly follow me in the explanation.

Mr. Ilsley: My point is that you say there is a $4 difference in the cost of superphosphate, but it would be very much less than that in the cost of the mixed fertilizer?

By Mr. Factor:

Q. That dollar a ton difference does not account for the difference in the superphosphate?—A. No, it has nothing to do with it.

By Mr. Sommerville:

Q. Yes, proceed, Mr. Grubb?—A. Now, in this statement I am trying to explain the difference in our price list, Quebec versus eastern Ontario. So to do it, I have put the price list on a similar basis.

Q. Have you any more of these?—A. Yes, here are some more.

Q. I will pass them around. This is a statement of detail of fertilizer prices?—R. Yes. What I want to refer to is the statement of detail of fertilizer prices, east versus west, breaking at Kingston, Ontario. I want to present it from the viewpoint of the price to the ultimate user, and the result to the C.I.L. in profit or loss as the case may be. 2-12-6 is a standard brand in both provinces. In the west the C.I.L. cash price to the consumer, delivered to his barn, is $33.75.

Mr. FACTOR: West of Kingston.

By Mr. Sommerville:

Q. The C.I.L. cash price is what?—A. $33.75.

Q. Look at your price list. It is $40.20, according to the price list. That is a credit price list?—A. We take $2 off in both provinces, so we may just as well—I think you are wrong on that $40.

Q. Well, I am reading from it. Here it is?—A. 2-12-6?

Q. Wait a minute. I was looking at 2-12-10?—A. $35.75 is the time price. We take $2 off for cash.

Q. I beg your pardon. 2-12-6 is $33.75?—A. Yes. In Quebec the price is $25 at the plant.

By the Chairman:

Q. It says $28 here?—A. I think delivered to the farmer's barn.

Q. In Quebec?—A. In this set-up that I am trying to explain, as to the difference in prices, I set out to explain the difference which is $11; that has been discussed, your 9 and 11 items.

Q. Put it on the same basis?—A. We must put it on the same basis. So that if the farmer in Quebec buys it—yes, I will sell to him at $25 at the plant; but if he wants it delivered to his farm, I think I am well within the bounds of common costs if I say it costs me $3.50.

By Mr. Sommerville:

Q. Per ton?—A. Per ton.

The CHAIRMAN: I think you would make good money at it; but never mind, go ahead.

By Mr. Sommerville:

Q. What if he calls for it and takes it away himself?—A. I am not trying to put anything over. I have got the freight rates here. We can ship within a radius of 125 miles for $2.50 a ton, that is in carload lots. If it is less than a carload, my rate is practically doubled; and then have got to move it from the station to the barn. However, I am not fighting with you about 50 cents or a dollar.

By Mr. Factor:

Q. Take truck delivery?—A. I might save some. But there are other cases where it might cost me $10 to deliver it. However, if there is any question on that $3.50 price, I am quite willing to try and break it down.

The CHAIRMAN: We will let it go.

The WITNESS: Thank you. That means a difference of $5.25 in the farmer in Quebec versus Ontario. The C.I.L. viewpoint is this: When we make 20 per cent superphosphate, I have explained it costs us $4 a ton less. That means there is 20 units at $4 a ton, which is 20 cents a unit. In 2-12-6 there are 12 units of P_2O_6, so that the difference in the superphosphate contained in 2-12-6 is $2.40 per ton.

By Mr. Sommerville:

Q. In Ontario over Quebec?—A. In Ontario over Quebec, right.
Q. At Hamilton over Beloeil?—A. Right. My plant is one dollar.

By the Chairman:

Q. That is for the 21 brands?—A. Among other reasons.

Mr. SOMMERVILLE: Why do you call your "plant, one dollar"?

The CHAIRMAN: Those 21 brands that it keeps the book-keeper looking after.

The WITNESS: That is right.

Mr. ILSLEY: Manipulation, he says.

By Mr. Sommerville:

Q. Manipulation of the chemicals?—A. That is right.

By Mr. Ilsley:

Q. It is a little more than book-keeping?—A. It is very much more than book-keeping. We will be glad to turn that up. Now, in the province of Quebec the fertilizer is handled by the dealer, generally speaking, at a 5 per cent profit. I think that is probably largely brought about due to the French element there, who are willing to handle things cheaper than some other people, and more co-operatives in the province. That is our only discount in Quebec. As far as the difference between our merchant and consumer is concerned, for 5 per cent they handle it. They have an additional profit, if they want to take it, in the fact that when we ship, we will say, a carload of fertilizer to Sherbrooke, for example, the carload rate, we will say, is $2.50. Less than a carload would be about $5. So a merchant at Sherbrooke, in addition to making his 5 per cent, could make a portion of the freight, and in some instances probably does. In Ontario our marketing was badly falling down. We could not interest the merchants in handling fertilizers, and we wanted to very badly, not only for our own good but also for the good of the farmers. We find that if a merchant will carry fertilizer in stock, he has got it there, so that when the sun comes out the farmer can go and get it, instead of waiting, sending to the factory and getting a few bags. Unfortunately the fertilizer shipping season is very short, usually about six weeks; and if there is a big drive on the fertilizer factory for six weeks, it is impossible to deliver the material to each farmer on the day that he wants its. They all want it on the sunshiny days. So that if we can get a merchant to carry that in stock, he is certainly doing a service to the farmer. In addition to that, that merchant knows more about the financial standing of the farmers adjacent to him than we can possibly know. In addition to that, he will probably swap cows or hams or pigs for fertilizer, which we cannot do. So that we definitely do want to keep the merchant in our picture as a distributor. In order to do that, he must have a profit. He will not work on 5 per cent. We give him 10 per cent in Ontario; and in addition to that, for s.d.b.l., we give him one per cent, which makes 11 per cent.

By Mr. Sommerville:

Q. For spot cash?—A. For spot cash.

Q. With delivery?—A. With delivery. In addition to that, one of the big problems has been the truck. These trucks come to our factory on the sunshiny days, early in the morning, and up until 10 or 11 o'clock at night; and it costs us more money to handle material by truck at our plant than it does by rail. By rail it is a 15-ton minimum, up to sometimes 20 or 30 or 40 tons. We can get our machines going. We bag this stuff as it is loaded. It is the only way we can get the run off. The bags roll into the box car. By truck we have to load them as the trucks come in. They will back up to the platform, if we want to go ahead and load them on the truck. To encourage rail shipment in Ontario, we are giving a dollar a ton to the merchants in addition to the 11 per cent. In Quebec that is not so workable, because the roads do not open up there so early; trucking is not the problem, and we have snow roads, and we don't have as many good roads. So to further assist the entire picture, we try to encourage rail shipment. So that the difference in our distributing costs in Ontario versus Quebec is $3.15. That is taken on our discount of 6 per cent in addition to the 5, an additional 6; 11 instead of 5 to the dealer. So that our out of pocket costs in Ontario for selling 2-12-6 is $3.15 in distribution. That makes a total additional cost to Canadian Industries, Limited, on 2-12-6 of $6.55.

Mr. FACTOR: You charge $1.30 more?

By the Chairman:

Q. You are losing $1.30?—A. We are losing $1.30. I am losing more money in selling in Quebec than I am in Ontario, by $1.30, on 2-12-6.

Q. You told us a little while ago you were losing money in Quebec?—A. And in Ontario and in the Maritimes.

Q. So you are losing $1.30 a ton in Ontario?—A. Yes, that is right, on 2-12-6.

By Mr. Factor:

Q. You mean you are actually losing money?—A. Definitely.

Mr. SOMMERVILLE: So he says.

The WITNESS: I have my statement here which I will file. We have lost over $100,000 each year in the last three years.

By Mr. Young:

Q. Is it possible for the farmer to bring in his stock of fertilizer in the winter time, and have it on hand when he wants it? If it will store with the dealer, why would it not store with the farmer?—A. No, I won't say it stores with the dealer. The dealer will have his fertilizer shipped say beginning with March, April and May, stretching it over say about 90 days. With regard to the farmer, they will all want it about the fifteenth day of April.

Q. Why could not they get it at a lower rate by importing?—A. Importing it? In car lots our Canadian schedule is cheaper than they could import it. You are talking about mixed fertilizers?

Q. Suppose he got it from you instead of having to go to the dealer and give him this little extra to carry along? Why could not the farmer get it?—A. We have set up, this year, a retail price that we want the dealers to maintain. We have asked them to maintain it.

By Mr. Edwards:

Q. Just on that point of Mr. Young's, I think it is very important?—A. Possibly I overlooked it.

Q. If they could anticipate their requirements and lay them in ahead of time, that would be a very much better way?—A. It would be.

Q. Is it not a fact, no matter whether it is your business or anybody else's business, they have had it drilled into them to just purchase from hand to mouth, on account of truckage and one thing and another?—A. Yes.

Q. And they will not look ahead in any line of business?—A. That is true. In that connection, in Ontario two years ago we offered special terms of payment if they would buy ahead; if they would take the stuff in February or March, we would date their invoice April 1st and give them just practically an additional month; and few take it. In the province of Ontario we gave 25 cents a ton for shipment up to the end of February. Practically nobody takes it. If we could find some solution, whereby we can ship fertilizer out of our plant beginning January 1st, we would be delighted.

By Mr. Factor:

Q. You say you have been losing money; what do you want to extend your business for?—A. We hope there will be a happier day, for one thing. I am hoping the superphosphate situation will not last forever.

By Mr. Young:

Q. This stuff is in your plant from January, and it is not needed until the first of April?—A. Well, I think it is in before then. We bring potash and rock in before the close of navigation, by boat.

Q. Have you tried to persuade the farmer to take it in January or December, whenever it is ready, and not have to pay for it until he requires it, on the 15th of April? Have you given him that much time?—A. Never given that much. There is a reason there, to. Fertilizer continues to have a chemical action possibly for a year after it is made and cured. If we were putting fertilizer into bags in January and it was not used until May, and had been left in a damp barn and possibly piled eight or ten bags high, it would probably become lumpy to a certain extent. These lumps would probably disappear if the farmer would manipulate them a little; but if there is the smallest idea that there are lumps in a bag of fertilizer, it usually comes back to the factory.

By Mr. Sommerville:

Q. Would not the same thing happen with your merchant who has stored it, that you are anxious to encourage him to store it in advance?—A. No, he will not usually have it over say about thirty days. He gets it pretty well the beginning of April; I should say thirty days.

Q. This question of $1.30 loss is dependent upon whether the one dollar you take off for plant and $3.15 which you take off for additional cost of distribution, or $4.15, is entirely reasonable?

Mr. Factor: And also that $3.50 charge for delivery to the farmer.

Mr. Sommerville: Yes, the two.

The Witness: Whether it is reasonable or not, it is the fact.

By Mr. Sommerville:

Q. Well, your facts?—A. If we can find some way of getting around it, I would be glad.

Q. Your facts may not be reasonable?—A. Well, possibly so.

Q. In other words, items of cost may be added to in there with which we are not familiar at present?—A. Quite right.

Q. And that would alter the picture?—A. We would be glad if you would look at our books.

Q. What is the price at which 2-12-6 is sold to the Federee?—A. We give the Federee a special discount of 5 per cent.

Q. Discount for what?—A. On quantity.

By the Chairman:

Q. You give them a discount of 5 plus 5?—A. Right.

Mr. SOMMERVILLE: Then the cash price in Quebec is $28.50.

Mr. FACTOR: No, $25.

The WITNESS: Mr. Stevens, with this special discount, I would just raise the question: Is it wise to have this appear in public?

The CHAIRMAN: Well, possibly not.

The WITNESS: I would prefer giving it to the committee; because if any little farmer ever thinks that anybody gets a special discount, it makes it a little hard.

The CHAIRMAN: It would have been better to have just stated it in confidence.

The WITNES: May I amend my statement?

The CHAIRMAN: The press are behind you; they will respect your request, and not mention that.

The WITNESS: All right. In confidence, The Federee gets such discount.

The CHAIRMAN: Anything of that kind that you want to state, just tell us.

The WITNESS: All right.

By Mr. Sommerville:

Q. You will table the prices that the Co-Op. Federee get on all these brands?—A. I will.

Q. And then the relative cash price in the province of Ontario for each of these brands?—A. Yes. I have them here for all the brands common to both provinces, right on this statement.

The CHAIRMAN: You see, Mr. Grubb, up to this point we have been taking your statement of the 5 per cent discount as covering the whole thing. It has been in the evidence right along that the Federee are the biggest distributor.

The WITNESS: Yes.

The CHAIRMAN: They are the main distributors.

The WITNESS: Right. I will table that.

The CHAIRMAN: So that it is normal; I mean to say the discount there is normal. It is not extraordinary.

By Mr. Sommerville:

Q. You give the jobber 10 per cent in Ontario?—A. There is a difference. I will be glad to table the percentage of our business that we do with the Co-Op. Federee versus the general trade. But there is this difference, the Co-Op. Federee are backed by the government.

By the Chairman:

Q. Let me interrupt. You emphasized to the committee your breakdown of that $3.15, and made the special point that you were forced in Ontario to give the dealer who would not work as cheaply as the man in Quebec, an extra 5 per cent. After we have swallowed all that we find something which is virtually the same. You can't escape it. It is about the same commission?—A. No—just a minute, Mr. Stevens, I am not trying to make you swallow anything.

Mr. SOMMERVILLE: The difference in the commission that you allow in Ontario and the commission that you really allow in Quebec is practically the same.

The WITNESS: Just a minute.

By Mr. Sommerville:

Q. Well, in the one case it is 10 per cent. and in the other it is 5 and 5?—A. Well, in Quebec, our money with the Co-Op. Federee is definite, absolutely not a nickel lost. In Ontario our risk is a great deal more.

Q. That is getting off on another point?—A. Once again I tell you that I was discussing things generally. We have some customers in Ontario who get a special discount, but they are not in our general picture. I was trying to spread before you gentlemen a general picture. I will table with you, with the minutes of our last meeting at which we discussed prices, and which minutes I have with me and had with me yesterday, a list of the people who get a special discount, together with their discount; so I don't think the picture would be so far out.

Mr. SOMMERVILLE: I think I have that here.

The WITNESS: I think there was a kind of big hunt for that yesterday. I have the minutes.

The CHAIRMAN: Of course, I don't mind saying—speaking for myself—it immediately puts your $3.15 out of gear.

The WITNESS: Out of kilter? Well, I will be glad to work these figures up the other way, if you like. I was trying to present a fair picture.

By Mr. Factor:

Q. Let me ask this: You said that the price in the Maritime provinces, delivered, is the f.o.b. price in Quebec. That means that 2-12-6 in the Maritimes sells for $25, is that right?—A. Yes.

Q. Delivered?—A. I said approximately.

Q. Well, yes, approximately?—A. I think so.

Q. Approximately then, the price of 2-12-6 in the Maritimes is $25 a ton?—A. Yes.

Q. Making a spread or difference of $8.75 between western Ontario and the Maritimes?—A. Yes.

Q. Now, what enters into this spread?—A. In the Maritimes I have to take my medicine on imports.

Q. On what?—A. On imports, any raw materials coming to the Maritimes free of duty.

Q. They come in all over Canada?—A. All the year around, so that we are really under more keen competition in the Maritimes than we are elsewhere.

By Mr. Factor:

Q. Is that the only factor that enters into the spread of $8.75 between the Maritimes and Western Ontario?—A. My raw materials would be cheaper in the Maritimes than in Western Ontario, because the Maritimes are on the seaboard.

By Mr. Sommerville:

Q. Not very much of a differential, I think you have already recognized that freight is negligible?—A. No, I do not think so. I said around $2. Let us take the same freight, I am talking about raw materials.

Q. Yes?—A. Now, if I bring Potash into my Halifax plant, I can put a boat right alongside of it, and put it into my plant for about 25 cents a ton unloading, and I have a wharfage charge of 10 cents. If I bring that stuff to my Hamilton plant—I will say this that the railroads in competition at import times issue special freight rates from Montreal to the various fertilizer plants in Ontario, $3.50, that is competitive to the boat rate of bringing it in.

Q. But you have had it come by boat right to Hamilton and had the boat take away canned goods on the return journey?—A. If we help the canners out I am glad. When it comes to bringing it in ocean boats, they do not come to Hamilton, that must be trans-shipped to Montreal.

Q. You have had tramp steamers come right up there with your potash, so I am informed?—A. Never to Canadian Industries, we have never had a tramp steamer come direct to our dock in Hamilton in the interests of our fertilizers.

Q. No potash?—A. If some of the other manufacturers have, I don't know. We have not, we have had to transfer every pound of it.

By Mr. Factor:

Q. I still can't see why there should be a spread of $8.75 between the Maritimes and Western Ontario; do you lose money on the Maritime business? —A. Yes. I will say this, that last year—I am not trying to hide anything—our fertilizer picture is drawn up differently in Eastern Canada than it is in Western Canada—when you ask me if we lose money in the Maritimes, we did not keep books separate for the Maritimes, and Quebec and Ontario. That could be broken down and we would be glad to do it. To my mind I am satisfied that our $100,000 loss per year is divided between the three districts.

By Mr. Ilsley:

Q. In your mixing plant at Halifax, do you use this cheaply manufactured superphosphate?—A. I have been sending superphosphate from my Beloeil plant to Halifax on a freight rate of $3.40.

By Mr. Edwards:

Q. Has not the proximity of American establishments to the Maritimes something to do with it?—A. Yes.

Q. You say you are meeting competition, and you made application for duty evaluation on the American product; has not that quite a lot to do with your Maritime situation; I mean, shipments from the United States into the Maritimes?—A. The very fact that all ingredients enter Canada duty free means that our Canadian schedule of prices on mixed fertilizers could not be exorbitant.

Q. The mixed product coming in from the United States is subject to duty? —A. To 10 per cent, right.

Q. Has not that competition from the United States tended to lower the price in the Maritimes?—A. Right.

Q. That is a big feature, isn't it?—A. That is right.

By Mr. Young:

Q. Which of these brands is the heaviest seller? You have five in the red here, and three in black.—A. I would like to explain one or two grades of this—2-12-6 is carried at $1.20, 2-12-10 is carried at $1; on 4-8-10 I make money in Ontario, $1.96. But 4-8-10 is my largest seller in Quebec. I sold 2,014 tons in 1933, as compared to 190 tons in Ontario; so if the Ontario man is penalized $1.96 on 190 tons, versus 2,014 tons, I do not think that is too unreasonable. Coming down to the 6-8-10 where the Ontario man is penalized $3.44, I sold 30 tons in Ontario as against 275 in Quebec. And coming down to 9-5-7, which on the face of it I admit looks out of reason, $6.54, it is a new brand we brought on the market last year in Quebec—different agriculturists have got behind it and recommended it for fruit planting—last year my sales in Ontario were 8 tons, so that on my extra 50 there, it is not a large amount.

By Mr. Sommerville:

Q. But if you sell 1,000 tons this year?—A. Undoubtedly the thing would come up for review.

Q. Review, by whom?—A. By me.

Q. Oh, yes. That is a fertilizer on the face of it that shows a difference of $12.45 per ton in Ontario above that of Quebec?—A. That is right.

Q. Yes?—A. Now, on the superphosphate, if you will note, I lost $5.05 a ton in Ontario, and on the 16 per cent $5.53.

By Mr. Factor:

Q. You say you lost, you mean you make less?—A. Either way is equally correct, I make less—yes.

By Mr. Young:

Q. If you lost in Quebec you mean you would lose more?—A. That is right

By Mr. Kennedy (Peace River):

Q. What is the amount of your sales in Ontario and Quebec on Superphosphate?—A. What is that?

Q. The amount of your sales?—A. The amounts, I will have to tell you that broadly, because the figures I have here indicate my bulk Superphosphate shipments with my bagged. But I will say this, roughly in the province of Quebec, I am mixing much more Superphosphate than in Ontario, and my sales of Superphosphates would probably be ten to one, Quebec versus Ontario; in bag Superphosphate not so much—they would run about five to one—subject to verifying figures.

By Mr. Sommerville:

Q. Is it correct that all fertilizers have gone up $3 a ton higher in 1934 than in 1933 in the province of Ontario?—A. No, sir.

Q. How much are they, generally. You would know, approximately?—A. Some of them are a little lower, some a little higher. I do not think there is a brand that shows the difference of a dollar.

By the Chairman:

Q. Have you got your price lists?—A. Yes, sir.

Q. Let us have your price list?

By Mr. Sommerville:

Q. You will fill that price list in any event?—A. I will.

By Mr. Young:

Q. You say Mr. Grubb, that the ingredients used in mixing fertilizers are free, and there should be no difficulty in obtaining these supplies for mixing?—A. I can conceive of no difficulty.

Q. We have the evidence here that Mr. Scott set up a mixing plant at Aldershot, in the heart of the fruit district, and found it impossible to get these raw materials except by buying them from Canada Packers and paying them an extra $2 a ton as commission to get these raw materials. Now, Mr. Scott is not going to pay $2 a ton if he could avoid it. How do you account for that? —A. I do not know Canada Packers transactions. Mr. Scott asked us for a price on Super-Phosphate.

Q. Yes?—A. We gave it to him.

Q. And apparently he did not buy it from you?—A. No.

By Mr. Factor:

Q. In this 4-8-10 where the Ontario grower is penalized $1.96, you gave figures showing that you only secured 90 tons in Ontario and 2,000 odd tons in Quebec; is that right?—A. 90 tons in Ontario.

Q. Is there any arrangement between you and Canada Packers whereby you zone out the districts between you?—A. None whatever.

Q. Do Canada Packers sell this kind, 4-8-10, which you sell in Ontario? —A. I would not think so, it is just a brand that is not sold to a great extent. There are government records showing the sales of each brand in the different provinces. There is no zoning arrangement of any kind.

By Mr. Sommerville:

Q. Yes?—A. Can we continue with this order here for Northumberland County?

Q. Yes, if you have anything further to say; but Mr. Scott—?—A. I do not want to avoid that. Scott asked us for a price on Super-Phosphate and we quoted him.

Q. What price did you quote him?—A. I will be glad to detail it.

Q. Was it the regular jobber's price?—A. I quoted him s.d.b.l.

Q. What is that?—A. Sight draft bill of lading.

Q. That would be for cash?—A. Yes, sir, based on former experience.

The Chairman: Of course, that is your privilege.

The Witness: I know.

The Chairman: There is no question about that. But what price did you quote him, did you quote him the same price that you would quote to any similar buyer.

The Witness: The same price I would quote to any similar buyer.

By Mr. Sommerville:

Q. Although he was going into the mixing business?—A. If he had come to me for a thousand tons or two thousand tons, I would have quoted him a better price.

Q. Apparently he went to Canada Packers and paid that $2 commission for buying the quantity he required?—A. I do not know about that, Canada Packers buy some of their super-phosphate from me, from 2,000 to 3,000 tons at a time. It is their privilege to sell it at any price they like. They may have undercut my quotation.

Q. Then on the basis of allowing Canada Packers $2 a ton commission, it cost him $36.10 per ton a hundred-pound bag?—A. $36.10 for Super-Phosphate.

Q. For his fertilizer?—A. Impossible.

Q. Because that exhibit that Mr. Robinson filed yesterday; we had the evidence of Mr. Robinson and Mr. Craise yesterday that it cost Scott $36.10, and he offered it for sale at $40.60 a ton with the Ontario list price at $50 a ton?—A. What is the material you are talking about.

Q. Nitrate. And upon communicating with the International Fertilizers here, one of the companies in your association, he found that the list price was $50, according to your price, and they met the competition at Burlington by selling it for $41?—A. I do not think he should have any kick with the profit he made.

Q. I beg your pardon?—A. I do not think he should have any kick with the profit he made selling it at $41.

Q. No, but if there is a $50 list price on Nitrate of Soda—your list price is $58 in Ontario?—A. Yes.

Q. That is the credit price, and that would mean that the cash price would be $56. He buys it from one of your association members for $41, which allows for $15 in spread between the cash price and your list cash price. There is room for some profit there. There should not be any loss, should there?—A. Just a minute: if Mr. Scott is a dry mixer of any size at all, he can buy all the Nitrate of Soda that he wants in carload lots and land it at Burlington at $35 a ton.

Q. Yes?—A. Was this Mr. Craise's evidence?

Q. Mr Craise and Mr. Robinson. Mr. Robinson was the buyer of this particular lot, and it was bought just last Monday—a week ago yesterday.

By Mr. Factor:

Q. He did say that nitrate of soda at St. Catharines last Monday was $50?—A. Let us take Craise: we sold him 20 tons of nitrate of soda at St. Catharines in a carload lot, which meant that we did not have to rehandle it, at $34.90. That is what he paid. We sold him that. I have the invoices here.

Q. When?—A. I will tell you—March 29.

Q. This year?—A. This year.

Q. That is one carload of nitrate of soda delivered at—?—A. St. Catharines.

Q. And the price was—?—A. $34.90.

Q. And the list price is $56?—A. Right. Now he could resell that—

Q. That means $22 per ton difference between the price he paid and your cash price list?—A. Yes.

Q. And that is equivalent to 80 per cent of an increase over the price he paid?—A. Yes.

Q. Rather a large margin?—A. I do not think so. He can resell that—

By Mr. Factor:

Q. You don't think so; 80 per cent you say is not a large margin?—A. If you could get it on a sufficient tonnage, it would be robbery of a kind.

By Mr. Sommerville:

Q. How does the farmer know he can buy in carloads? Here is your price list which you put out and which you apparently endeavour to maintain through the members of your association. How does the ordinary farmer know that there is such an enormous variation between one man who buys a car for $34 and another man who comes in and gets a ton and buys it at $56?—A. I think it is rather generally known; it is certainly generally known among the growers—we have a car here we sold the Vineland Growers.

Q. And you sold the Vineland Growers at what amount?—A. $35.90, and I understand we have only charged them a dollar on freight, which would make it $34.90.

By Mr. Factor:

Q. And at that price you make a reasonable profit selling in carload lots?—A. We make them $1.80 to $2 per ton, it varies I think in different seasons of the year; and incidentally we do not handle that in our plants.

By Mr. Sommerville:

Q. At that rate when you sell at $56 you certainly do make a substantial profit?—A. Let us see how much we sell.

Q. I do not know how much you sell, but the whole amount you sell is sold largely on the basis of your price list, is it not; on the basis of your agreed price list?—A. We sold nitrate of soda this season in Ontario, three carload shipments totalling 55 tons.

Q. Yes?—A. Any time we find there is an agent or a merchant handling any amount of nitrate of soda, we certainly advise him as to the cheapest way he can get it, which is carload lots. If we don't our competitor will.

By the Chairman:

Q. Every time we put our finger on something that looks rather unusual we have you saying that you have sold three or four tons of it. I am beginning to

wonder what items there are here which you do handle in quantity?—A. I could give them to you.

Q. Do you mean you only sold three carloads of nitrate of soda?—A. I had not finished. I sold shipments of carload lots, a total of 55 tons, and I sold 95 shipments which totalled 28 tons.

Q. Twenty-eight tons?—A. Yes. These 95 shipments, a lot of them will have to go by truck; possibly some of it would go in a car of fertilizer—a bag or two bags, maybe two tons—the rest of it might have to go as 500-pound shipments by itself, possibly to Sault Ste. Marie or Windsor where our freight rate would be from $10 and $15 a ton.

By Mr. Factor:

Q. But the 95 shipments were sold?—A. At the long price.

By Mr. Sommerville:

Q. At the long price?—A. That is correct, 28 tons.

Q. Twenty-eight tons, then, was sold at the long price of $56 cash, and the three shipments of 58 tons were sold at the $34 or $35 rate?—A. That is right.

By Mr. Factor:

Q. Did you keep a record of the sales to the retailer of these brands, of how much you sold in 1933 of nitrate of soda?—A. I can get it. We do not keep everything quite in that detail, but it is not hard to dig it out.

By Mr. Sommerville:

Q. You will agree, Mr. Grubbs, that the farmer is justified in asking for an explanation of this big spread from $34 cash to a $56 cash rate, as between various buyers?—A. Certainly.

Q. And what can you give him by way of explanation?—A. Well, to begin with on some of these items that were brought up, some of the smaller items which I think Mr. Stevens has mentioned.

The Chairman: Of course, they are not picked out because they are small?

The Witness: Not by you gentlemen, no. But by the grower I think they possibly are.

By Mr. Sommerville:

Q. The grower comes here and says: last Monday I called you up to buy fertilizer and the best I could buy it at was $50; then I went to the Independent, where there was an Independent in competition with a member of the association, and I was given $41 cash; that is $9 I saved that day because there was an Independent in the field; and that $9 represents better than about 20 odd per cent I saved that day through the competition; whereas, over at St. Catharines where the was no competition, the grower says, I had to pay $50 a ton?—A. If you did, I do not understand it. Mr. Craise, who testified here, has a brother and they are joint owners in the St. Catharines Cold Storage. We sold them a carload at $34.60, and I understand they resold it at $41 a ton.

By the Chairman:

Q. Which was not unreasonable, on the basis of the difference between $58 a ton?—A. To any place that there is any quantity of nitrate of soda delivered, where they can buy in carload lots, I will be glad to deliver it and explain to them how they can save on that $50 price.

Q. You went to considerable pains here about that; yes, and you made the impression upon the committee that anyone anywhere could get the raw

material for mixing their own fertilizer without any difficulty at all. Now, does not your recent statement, about selling such a very small quantity of nitrate of soda—one of the main ingredients of fertilizer—indicate that you and the larger firms discourage the mixing of fertilizer by the grower. Your price list would also indicate a very marked discouragement of it in order to force, shall I say, the buying of your mixed fertilizer—your commercial brand?—A. We prefer selling mixed fertilizers.

Q. All of the growers tell us they cannot buy materials except under difficult circumstances?

Mr. SOMMERVILLE: And at very high prices.

By the Chairman:

Q. You say there is no difficulty at all. On the other hand it is pretty clear I should say that your—I do not say it is wrong, but it is a fact—that your whole effort is bent upon selling your brand fertilizers?—A. We prefer selling them for our own good, and we think for the grower's good.

By Mr. Sommerville:

Q. There are legitimate reasons behind it, Mr. Grubb?—A. My point is this, we are not primarily interested in selling—

By the Chairman:

Q. Are you not primarily interested in discouraging the buying of that in that way?—A. I would not say that is primary. I would certainly say we do prefer to manufacture mixed goods, and to sell mixed goods; that is what we built our plants for. We could put in our own stock of raw materials, and we could say we would not sell this potash, soda and the others—that we are using it all for our own purposes.

By Mr. Sommerville:

Q. I suggest to you, in the province of Quebec, where on your own statement there is a large amount of home mixing, did not you make a price to suit that home mixing condition; but in the province of Ontario you have discouraged it, and the price is made accordingly?—A. I do not think that is a statement of fact based on our costs.

By Mr. Ilsley:

Q. It is certainly true in the Maritime Provinces, home mixing has a relation to the price down there, hasn't it?—A. It is a benefit, no question about it.

Q. Particularly in Prince Edward Island?

By Mr. Factor:

Q. In Mr. Robinson's brief he tells us that your company did reach an understanding which had for its objective the stamping out of home mixing and the discouragement of the establishment of a type of satisfactory home mixing by groups of growers. He says the grower should secure the materials, but only through controlled channels in which the price is rigidly maintained. What is your observation on that practice?—A. I do not think it is true.

Q. Well, the price at which you are selling nitrate of soda seems to me to corroborate it?—A. I do not remember. As I say, I am general manager, and I may not be in touch with all the details of the business. But I must say I do not remember any kicks, or certainly if there had been many, they would have come to my attention. But with respect to this Nitrate of Soda business, I would say that these are small articles and there would be more kicks, as I say, because in the total the packages are smaller relative to the rest of our business.

By Mr. Sommerville:

Q. I would expect it would be on this price?—A. If there were any great kick on that ground they can always go and get a carload and distribute it.

By the Chairman:

Q. Why would you have a list price for Nitrate of Soda of $58 a ton—a time price—and a cash price of $56, when your commercial brand was apparently much lower, from $30 to $40? That is a spread of about $20 a ton above the price at which you are prepared to sell it in carload lots. Is not that in itself a complete discouragement to the purchase of that locally? Why would anybody be fool enough to buy it at that price?—A. In home mixing I do not believe anybody is using Nitrate of Soda, I think they would be using Sulphate of Ammonia, and the spread would not be quite so great. Let us check up on Sulphate of Ammonia, it is $46, and Sulphate of Potash—

The CHAIRMAN: $72.

The WITNESS: Here is one I have worked out on Sulphate of Ammonia. I did not know that Soda was coming up, or I would have worked that out. On Sulphate of Ammonia our spread between the carload price, $29 and which is very well known in the sections that use Sulphate of Ammonia, versus our less than than carload lot price of $46; and that looks like a lot of money, doesn't it.

Mr. FACTOR: That is $17.

The WITNESS: This $46 price: to start with we have to take off the agent's discount, 11 per cent; and the dollar which goes to delivery, plus $2 cash discount, and I am down to $37.94, which is a spread of $8.94. We bring this Sulphate of Ammonia into our plant and handle it through the plant—I can substantiate these figures on our plant costs—at around $3.50 a ton small and large.

By the Chairman:

Q. For what?—A. For making mixed fertilizer and handling it there.

Q. You are speaking of Sulphate of Ammonia, why do you apply $3 a ton? —A. We do not in our records set up a standard plant cost. We do set up separate ingredient costs for each item that goes to the plant.

Q. I may be very dense, but you say first you bring it into the plant? —A. Right.

Q. Then you say there is $3.50 a ton. You don't mean to say it costs $3.50 a ton merely to handle it inside the plant?—A. No, not for Sulphate of Ammonia.

Q. Then why is it mentioned, that $3, where you resell it?—A. If I am putting 10,000 tons through my plant, we find our average cost of putting that through, that would be for our mixed fertilizer, and for resale ingredients, it is not far from $3.50. I will give the committee the exact cost.

Q. Is that the cost of the material plus handling, or just handling that you are talking about?—A. That is just handling.

Q. That is for mixing in with other material?—A. That includes the overhead of my plant. That is my entire —

By Mr. Factor:

Q. That would not represent the cost of handling sulphate of ammonia?— A. No. Sulphate of ammonia I am willing to concede is a dollar.

By the Chairman:

Q. I confess you have got me mystified?—A. I am sorry, because I want to get you clear.

Q. I am so simple that I cannot see how you relate merely taking into storage and putting out of storage of the one article to the taking into storage and mixing formula?—A. We don't.

Q. I can't see any relation there, but I may be all wet?—A. No, you are not. Mr. Stevens, we are trying to get the red ink into black ink in the fertilizer industry. To do that, we are cutting down the amount of book-keeping, and our office records to a minimum. We decide, we will say at our Hamilton plant, that we are going to put 10,000 tons a year through. We find that the cost of operating that plant is $35,000. That takes in superintendence, handling, book-keeping, machinery and labour. We strike an average that it cost $3.50 to put out and lay down there. If we want to get into a little more detail we can compare the price; and I find that to put a ton of sulphate of ammonia or nitrate of soda which does not come from our machinery, it merely means taking it off the car and putting it in the plant and putting it back, would cost a dollar, or 50 cents if you like. We can put that in there. Then our mix, I suppose, costs us $3.50; probably would go up, so that would be $3.75 or maybe $4. But we struck an average rate.

Q. That is a very interesting lecture, but it does not alter the point or problem we are faced with, of the discouragement of people mixing their own fertilizer by abnormally high price lists of ingredients?—A. What are you willing to accept, that I put it through the plant for a dollar?

By Mr. Sommerville:

Q. You will agree that you encourage the use of the mixed fertilizer?—A. Of mixed fertilizer, yes.

Q. Over the home-mixing?—A. Yes.

Q. I think we could leave it that way?—A. May I finish this one point? Instead of saying $3.50 to put it through the plant, let us say a dollar. I really don't believe you can unload a car, put it in and take it out for less than a dollar, and leave interest.

The CHAIRMAN: I don't see why you wasted fifteen minutes on the $3.50. You would never persuade me of that in forty years. If you have said a dollar in the first place, we would have got along faster.

The WITNESS: I will put it at a dollar.

By Mr. Factor:

Q. Or 50 cents, we will say?—A. Make it 50 cents.

Q. You said a dollar or 50 cents?—A. I am simple. I would rather state a dollar. I have a spread there to explain of $8.94, between my $46 less discount and my $29 price. That $8.94 I will explain is one dollar through my plant; the average freight and handling to the farmer's barn of $3.50 makes it up to $4.50. I have gypped the farmer $4.44 as against a carload price of $29.

By Mr. Sommerville:

Q. He thinks you have gypped him three times that much?—A. I am afraid he does. I will go this far: We would much prefer to sell every ton of nitrate of soda that we sell, in carload lots, direct shipment and not see it, than have that money.

Q. But that is not possible, because you know the farmer does not use it?—A. That is quite right.

Q. Your trade must meet the farmer's needs.

By Mr. Edwards:

Q. Mr. Grubb, is it not a fact that these gardeners are anxious to purchase nitrate alone which promotes quick growth, at a certain time of the season when they are anxious to have it; so that it is very desirable that they should

be able to purchase at a fair price?—A. Yes. We still contend that our price of $46 is fair. I don't believe it is unfair, where we would much rather sell at $29.

By Mr. Sommerville:

Q. From $29 to $46; you say a $17 spread is not unfair?—A. I have explained all but $4.44. I don't know whether it is to your satisfaction or not.

By the Chairman:

Q. What are you talking about, nitrate of soda?—A. Sulphate of ammonia is what we were discussing. I had broken that down, and I had broken that down because I had just happened to pick on that. I will break down nitrate of soda. Of the sulphate of ammonia, by the way, we sold six shipments in carloads this year, 137 tons, which would be at the $29 price, and we sold 66 shipments of 29 tons.

By the Chairman:

Q. Of course, the buyers won't buy that nitrate of soda and sulphate of ammonia at this price; that is, the small buyer. You know that?—A. Yes.

Q. He is forced to turn to the other?

By Mr. Sommerville:

Q. Take for instance this potash at the price of $72 on time a ton; and then turn to the mixed fertilizer that contains the most potash, that is 0-12-15. There are 12 parts of phosphoric acid and 15 of potash. You credit price for the mixture is $40.60, and your credit price to him for the potash alone is $72. That is a $32 of a spread. That is what you call encouraging the use of mixtures. Is that not the method of your encouragement?—A. I don't think it is.

Q. Is that the measure of your encouragement?—A. I should say not. When we entered the field—I can only speak for myself again—when we entered the field we found that Ontario, generally speaking, were using mixed fertilizers, which suited us fine. We have let it stay there.

By Mr. Factor:

Q. But you say that your tendency is to encourage the purchase of mixed fertilizers?—A. Yes.

Q. What educational methods do you adopt in that encouragement?—A. We have a development department with experts. We set out experiments on our own, and with the assistance of the different colleges in the different provinces.

By Mr. Sommerville:

Q. You contribute to the colleges?—A. Yes, and we run experiments of our own. We now have an experiment with fertilizer on pasturage that wiil cost us $3,000 or $4,000 before we are through. Incidentally, parts of it are allied to ingredients versus mixed fertilizer. We will await the answer with interest.

By Mr. Factor:

Q. You don't think the high price of ingredients has anything to do with this policy of encouragement?—A. I had never considered it. I am perfectly willing to admit that in the Maritimes and in Quebec where the buck is given to us, that we are fighting against a lot of home-mixing, that the price we set on mixed fertilizers has something to do with it. But the problem has never come up in Ontario.

By the Chairman:

Q. Why should you fight the farmer mixing his own, if he wants to mix his own? What right have you to throw impediments in the way of any farmer from buying the ingredients and mixing his own?—A. I don't think "fight" is quite the word. Here is our idea on it. When raw materials are bought, they are not uniform in analysis, and they are not mechanically in the proper condition in a great many instances to be spread on the land. We get the best raw materials.

Q. That is the business of the fellow who buys it. Why should you set up as judges over his actions?—A. I don't say we are judging.

Q. If he wants to buy potash and sulphate of ammonia and superphosphate and all the rest of it, and mix his own, why should you worry about whether he gets exactly a uniform grade? It is his funeral?—A. No, it is not his funeral. We are part of the corpse. We are intensely interested in the farming industry.

Mr. SOMMERVILLE: Some corpse.

The WITNESS: All right. If the farming industry does not succeed, the fertilizer industry does not succeed. We have ever so many things in common with the farmer. Now, if the farmer gets some of these materials with lumps, and not in the best mechanical condition and mixes them all together, he is not going to get an even mix, and in our opinion, he is not going to get an event crop.

By Mr. Sommerville:

Q. And if he does that, he will find it out mighty soon and then he will go to the mixture?—A. Right.

Q. Let him try it?—A. Why should he not try to tell me?

By the Chairman:

Q. Some of the best farmers in the country, most experienced and intelligent men,—some of them have been buyers,—said they never do anything else but buy their own ingredients and mix their own, and said they would not bother with the other?—A. Yes.

Q. You can't persuade us that the farmer is so helpless and ignorant that he cannot do these things; but in the face of this price list, I can see that he has a very serious difficulty?—A. Yes.

Q. And that is the real object of this committee. What we want to know is why these abnormal prices are charged to the farmer for these ingredients?—A. Yes. Of course, Mr. Stevens, in the old days of the muzzle loader, a shooter used to think that he could buy his powder and his shot and his wads and make up a better cartridge than machinery; but I think that idea has changed. We have an idea that the farmer will also change his idea.

By Mr. Sommerville:

Q. Here is a complaint that comes to us from the Holland marsh. You know that, up the Holland river?—A. I have never been there. My district manager goes there.

Q. It is an area of 400 acres of garden land which has been reclaimed from the swamp, or from the marsh, and highly cultivated by Dutch growers. They say the buying of fertilizers in units, the grower to do his own mixing, is the proper method and would reduce the cost; but the trouble is that the fertilizer companies demand cash for the orders for ingredients, and charge them a high price for those ingredients so as to discourage it, and thus make it expensive for them to do it, and they must buy their mixed fertilizer from you?—A. Yes.

Q. Why should not a group of farmers like that, highly developed, in a very highly intensified market gardening area, not be able to buy their ingred-

ients reasonably, and let them make their own experiments?—A. There is no reason at all.

Q. The price would seem to indicate that there is a very strong reason; and the fact is they don't do it?—A. Yes. First of all you said they could only buy them for cash. If they have the proper credit standing and we are willing to take some fairly long chances on the honesty of the grower, we will be delighted to sell them on credit. Now, if they are using any appreciable tonnage, we will be delighted to sell them in carload lots, sulphate of ammonia at today's price of $29; nitrate of soda, bring it from New York and give it to them to-day at $34 or $35 as the case may be; and potash at the best we can.

Q. That apparently was not the experience of the farmers three weeks ago?—A. Well, if they had got in touch with Canadian Industries, Limited, it would have been the experience. If my salesmen did not get in touch with them, I will get after my salesmen. Now, if that little group of farmers wanted to buy a mixed carload of the three articles, we would not have given them those special carload prices; because honestly, irrespective of the arguments here, I still do not see that we could have afforded to do so.

By Mr. Factor:

Q. There is one thing that puzzles me, and I wish you would enlighten me. Apparently on the ingredients such as nitrate of soda and sulphate of ammonia, you make a handsome profit from the grower, and a reasonable profit from the carload lots. You tell me that you lose money on the fertilizer when you mix the fertilizer. Why should you encourage the grower to buy mixed fertilizer when you can sell ingredients and make money?—A. Well, the ingredients in Ontario—people may claim it is on account of the high price—are a very small portion of our tonnage. And when you say we make money on the ingredients and lose it on the fertilizer, we don't keep separate books on the ingredients versus mixed fertilizer. They are all in the one pot.

Q. Why not encourage the sale of ingredients where you can make the same money?—A. We would then not be in the mixed fertilizer business. We would be jobbers then, instead of in the mixed fertilizer business. Merely change our line of vocation.

By Mr. Edwards:

Q. Is that not the answer?—A. I think it is.

Q. You are in the mixed fertilizer business, and naturally want to sell your product?—A. Yes.

Mr. FACTOR: And lose money.

By Mr. Edwards:

Q. Well, you are not anxious to sell individual ingredients. Otherwise, you are simply jobbers?—A. We sell the individual ingredients as a business, that is in instances where we find a large tonnage is wanted.

By Mr. Sommerville:

Q. Was there anything further you wanted to present?—A. Yes.

Q. All right, go ahead?—A. We were talking about this Eastern Ontario thing, and then this Brighton order. Now, I have worked out the Brighton order, this Northumberland County purchasing committee order.

By the Chairman:

Q. We have evidence, by the way, that the order went to the Federee?—A. No, sir, the order came to us; the evidence was that the Federee turned the order down. The Federee tell me that they never had the order, and had no correspondence of any kind. We got the order.

By Mr. Sommerville:

Q. What was your price on 2-12-6, the price at which you agreed to sell; the 2-12-6 was sold at $27 and the 4-8-10 at $30, and the 5-6-9—?—A. Here is the break-down that will explain that, if you don't mind. It is headed, comparative cost of a shipment of prepared fertilizer, 45·3 tons Sulphate of Ammonia—40 tons of Sulphate came from Trail to the Northumberland County Purchasing Committee according to the invoice.

Q. Now, this is something that you did sell to them?—A. Yes, sir. This is the order that we understood was offered to the Co-op. Federee and refused, and then refused under pressure—which evidence might be correct.

Q. Now, you don't mean that?—A. I think there must be a misunderstanding.

Q. Which evidence, you say, may be correct; the evidence was it was under pressure, you have already said it was under pressure?—A. I think we are not talking about the same order.

Q. I see?—A. I have made up your whole file, with copies of the invoices. If the goods have come from the Quebec factory at the Quebec schedule versus the Ontario schedule, I find that the entire shipment, if it had been delivered at the Ontario schedule, would have cost them 70 cents a ton more.

Q. That is your price from the Ontario price list?—A. On these particular brands. And there were in these brands 11 mixed fertilizers, four of which are not commonly stocked in Quebec, and which I would have had to have made up specially and it would have cost the Northumberland growers—they would have saved 70 cents if I had shipped them from Quebec. There was this Sulphate of Ammonia which came from Trail and which sells in Ontario and Quebec at $29, then the additional cost of mixed fertilizer, and Super-Phosphates and ingredients to the Northumberland growers would have been $1.32 a ton.

Q. Yes, they would have paid more for the Ontario than for the Quebec?—A. That is correct.

The Chairman: I do not get what you are driving at. That is the way you work it out ultimately.

The Witness: Here is the way I worked it out. We got an order here for 85 tons from Northumberland County.

By Mr. Sommerville:

Q. Let's get straight on that?—A. Yes, sir.

Q. The order from Northumberland County covered four fertilizers, here are the four; and here are the prices quoted, and I want to ask you if you have figured them out on these prices; these prices are for carload lots prepaid to Brighton, Ontario?—A. Is that my quotation?

Q. No, this is a Quebec quotation?—A. I do not know anything about it.

Q. This is a Quebec quotation that was subsequently turned down, and it was an order for 2-12-6 at $27 per ton at Brighton Station?—A. I would not have sold it at that.

Q. 4-8-10, $30 per ton at Brighton Station?—A. I would not have sold it at that.

Q. And 5-6-9 at $30 per ton delivered at Brighton Station?—A. I would not have sold it at that.

Q. And 6-8-10, $32 per ton at Brighton Station?—A. No.

Q. Then you say these comparative figures do not mean anything?—A. Just a moment, Mr. Sommerville; that is not my quotation, I take no responsibility for it. The Northumberland growers wanted a bill of goods. The specifications are on these invoices.

Q. That is the bill of goods they subsequently ordered?—A. That is right.

Q. But you do not know whether it covers the same fertilizers as were ordered in the province of Quebec?—A. I understand that this was the entire requirement of the Northumberland Growers this year. Mr. Hunt, who testified here, was on the purchasing committee. They came to us and asked if we would sell them 85 tons of mixed fertilizer.

Q. I am talking about four mixtures only?—A. They did not ask us for that, I do not know anything about it. On this particular order if they had said to me that they wanted to buy it f.o.b. Beloeil I would have taken our price list and I would have priced it on the Quebec schedule, which I have done in one column.

Q. Yes?—A. I should then have taken our Ontario price list and priced it on the other column, which I have done. On this particular order, had I supplied it on the Quebec schedule, it would have cost the Northumberland growers 70 cents a ton less than it did.

Q. That would depend—?—A. That has got nothing whatever to do with mixes, as far as mixtures—.

Q. That would depend on the price at which you start?—A. I am starting with my Quebec published price list, which is my Bible.

Q. That is the Old Testament, Quebec?—A. I think so.

Q. The New Testament is Western Ontario?—A. I would have priced it on my Ontario price list which is before the public to-day. Now, had I supplied that from my Quebec factory, it would have cost me, on the basis of the figures which I gave you, $162.96 more or a little over $2.00 a ton that I would have been out of pocket.

By Mr. Edwards:

Q. Would you supply these Northumberland growers in carload lots on the same f.o.b. price as to the Quebec growers?—A. No.

By the Chairman:

Q. You won't, and in your statement here this is what your loss amounted to?—A. I am not trying to hide anything.

Q. You are not secreting anything?—A. We do not seem to click on some of our dope.

Q. We certainly do not. In this statement here of the prices delivered at Brighton you deduct the commissions and all the rest of it?—A. Which they get, and this is what they pay.

Q. The fellow who buys paid it. The Brighton growers would have paid $1,700 in Hamilton for a certain list of goods they could have bought in Quebec at Belœil for $1,245. If you add to that freight of $158 it means about $1,400 as against $1,700 roughly speaking. That is what it would have cost the growers, a difference of around $300?—A. These growers in Brighton, as I understand it, are an association who buy collectively—have their own purchasing agent. In buying at the Ontario schedule, they paid out $70 a ton more on some 80 tons, which is about $56.00.

By Mr. Factor:

Q. That is not what the Chairman is pointing out. The Chairman is pointing out that if you look at your list price the total of the eleven invoices on the list price in Ontario was $1,700 if bought in Hamilton?—A. Right.

Q. The total list price if bought at Belœil is $1,245 for the same product?—A. That is right.

Q. Now, eliminating for a moment all of these other figures, and adding a freight cost to the $1,245 of $158, that makes a total of $1,483 for the same goods for which the grower would have to pay $1,700 in Hamilton. Is not that what you pointed out, Mr. Chairman?

Mr. SOMMERVILLE: That is what you would have got.

The CHAIRMAN: That is the advantage to the grower, could he buy in Quebec; but you say you will not sell him in Quebec for delivery in Ontario.

The WITNESS: I do not think that is right.

The CHAIRMAN: It is nearly one o'clock, and I am getting a little weary and a little hungry. Shall we have this witness back here this afternoon?

The WITNESS: I think I have a little more, because I am not honestly satisfied with the feeling of the Committee just at present.

The CHAIRMAN: We will adjourn until 3.30.

The Committee adjourned to meet again this day at 3.30 p.m.

AFTERNOON SESSION

The Committee resumed at 3.30 p.m.

The CHAIRMAN: Gentlemen, we will proceed.

Mr. SOMMERVILLE: We have several documents to be filed as exhibits.

(Ontario Price Lists Fertilizer Products filed marked exhibit 185).

(Copies of Tomato Growers Contract with the Canning Companies, filed, marked exhibit 186).

(Statement filed by L. B. Reynolds, showing the cost of crating strawberries, filed, marked exhibit 187).

Mr. SOMMERVILLE: Mr. Robinson desires to make a statement to the committee.

Mr. M. M. ROBINSON: Mr. Chairman, it has come to our attention within the last day or two that some of the canning companies and some of the jam manufacturers are under the impression that our brief is not directed at them. I would like to have it made clear and definitely established that our brief is directed against all the canning companies in Ontario and all the jam manufacturers. We do not want any false impression to be created that it is against any one company in particular. I might say, sir, that within the last day of two we have found that it might be possible by a process of negotiation to settle some of our differences as they pertain to canning and jamming, and we would like to ask that further consideration of our brief and the points raised in it, as far as the canning industry and the jam industry are concerned, could be left over for a matter of two weeks in order to permit certain negotiations to be undertaken.

The CHAIRMAN: Well, Mr. Robinson, I gather that you wish to emphasize the point, first, that your brief is directed against the industry as a whole?

Mr. ROBINSON: Yes.

The CHAIRMAN: We fully understood that, and if there was any other idea abroad, of course I would hasten to correct it. There is no question of that. Your second point is that you wish the committee to be quite agreeable to an adjournment of further hearing of this particular subject. As we have two or three other subjects in hand that are scheduled to come along, we can grant you that, and I certainly wish you luck in ironing out your differences and difficulties in the meantime if you can.

Mr. ROBINSON: Thank you, sir.

The CHAIRMAN: We will finish with Mr. Grubb on this question of fertilizer as quickly as we can.

(Continuing the examination of Mr. GRUBB).

The CHAIRMAN: Proceed, Mr. Grubb.

WITNESS: I will try to be as brief as possible. I think most of it is in. I filed this morning a statement in connection with comparative costs to the Northumberland grower had they been invoiced at Hamilton prices versus Beloeil prices, and I think that a little study of the statement at your leisure will probably make it clear. I would like, however, in passing to state that while the price of $1,700.36, list price, delivered Brighton, ex Ontario versus $1,245.09 at Beloeil is the list price, it is not the price that the Northumberland growers paid, neither is it the price that the grower paid. The final analysis is that the statement clearly shows discounts which applied in both instances and the net result was that the shipment of these goods from Hamilton cost the Northumberland growers $59.73 more than had they been shipped from Beloeil. That boils down to a total additional cost per ton of 70 cents.

Mr. FACTOR: I cannot agree with that. I have been studying that at the noon hour. I cannot agree with that, sir.

WITNESS: Might I suggest that the copies of the invoices made out on both plants have been filed.

The CHAIRMAN: There is no use of us wrangling over this. The point at issue, as far it concerns us is this: we are not dealing with isolated cases, we are dealing with something all the growers are affected by. The growers find a certain list price in Hamilton and all points west of Kingston. They find another certain list price in points east of Kingston including eastern Ontario and Quebec, and between these two list prices the average grower finds himself confronted with a strange discrepancy as far as western Ontario is concerned much against his interest. All I can say is that I fail to see in this or in any other statement you have made any justification for the difference.

Mr. SOMMERVILLE: And further, the Ontario grower would prefer to buy on the Quebec list and pay freight from Quebec and save the difference if he could, but you say he cannot.

WITNESS: Had I sufficient superphosphate at Beloeil I would be delighted to supply Canada with the cheap fertilizers; I have not got them.

The CHAIRMAN: You are not prepared to sell a grower in western Ontario on the Quebec prices and ship to western Ontario?

WITNESS: No, sir; I cannot.

By Mr. Sommerville:

Q. You and your company are manufacturers of superphosphate?—A. Yes.

Q. How about the Canada Packers? They do not manufacture it?—A. No.

Q. Do they import it?—A. They buy from me. I do not know their situation, but I should think they would not want to do it. On the other point as to our unwillingness to do it, I have filed a statement with the committee that you will have a chance to read at your leisure. If the costs set out are questioned, I hope that a government auditor will check it up. To clear up one other point. I was asked this morning as to how our sales of ingredients which the farmers might have for home mixing compared as against our total tonnage at Hamilton. Last year at Hamilton we sold and shipped 21,594 tons of fertilizer of all kinds. We sold in less than carload lots: sulphate of ammonia, 29 tons; potash, 67 tons; nitrate of soda, 28 tons, making a total of 124 tons, which is ·58 per cent. The point I am trying to make here is that we are in the mixed fertilizer business. Let those who wish to handle materials attend to their own business. In that connection the point came up as to whether these materials are easily available. At noon I found an advertisement by the United Farmers Co-operative in Ontario who can buy in the open market carloads of these various ingredients and advertise to the farmer that they are freely offered for sale. They would, undoubtedly, be offered to the farmer for sale at less than our list price. We did not check them up.

Q. They have difficulty in getting them, do they not?—A. I do not see it.

The CHAIRMAN: The evidence before us shows they have.

WITNESS: They are entitled to their opinion. If they can prove it, all right. I will sell them superphosphate.

By Mr. Ilsley:

Q. There is this to be said offhand that they can import; if they had any difficulty in buying it from you they can import?—A. They can import in the world's markets.

Q. If they tried to import superphosphate, would not they be confronted with the duty unless they proved that they have mixed it afterwards?—A. I am glad that point has come up because in Mr. Grose's evidence it was not quite clear. The duty on superphosphate for use as such is 10 per cent, except from England, when it comes in free. The duty for superphosphate for mixing purposes is free from any place. The question came up in the House in connection with nitrate of soda and Mr. Rhodes made the statement, and I certainly think that superphosphate can come into the same category; or if nitrate of soda is mixed even with sand it would be a duty free product to the farmer. Now, that same thing would apply to the superphosphate. I know that in the Maritimes bagged superphosphate is brought into Canada by the agricultural societies. The purchasers merely sign the statement it is for mixing purposes. Now, to mix that as he would, by Mr. Rhodes' remarks, all he need do is to spread it out under his apple trees and kick some sand over it with a hoe and get by.

By Mr. Ilsley:

Q. Yes, I remember that very distinctly. That was dissented from—that interpretation of 623 of the tariff. It says pretty clearly when it comes in free and when it does not?—A. I think I can definitely make this statement that the people that import bagged superphosphate in the Maritimes—the Prince Edward potato growers and the boys in New Brunswick—they did not pay 10 per cent.

Q. Even if they do not mix it with any other ingredient?—A. They merely sign the statement. I think it is rather regarded, when it is mixed on the farm, that it is mixed.

By Mr. Kennedy (Peace River):

Q. Do you think that a concern like the United Farmers Co-operative would have any trouble in buying superphosphate on the world's markets?—A. None whatever. They have done it in the past.

Q. Could they buy any amount they want?—A. I would say so.

By Mr. Young:

Q. Did your firm ask for this duty?—A. Yes. Which duty?

Q. There is a duty on superphosphate?—A. I think the duty on superphosphate was put on at the same time as the duty on mixed fertilizers. It is 663 which was in 1930. We did not ask for that duty. That was before we had really gotten into the business.

Q. Do you know who asked for it?—A. I understand that the Eastern Canada Fertilizer Association asked, and who was with them I do not know. I was not a member at that time.

Q. You do not know why they asked for it?—A. To try to save a dying industry or an industry in dire distress.

Q. To enable them to charge the farmer a little more?—A. As we are on that I will go out of my order. I would like to file this. We were asked this morning as to whether—

The CHAIRMAN: You say you want to file this. That will not be very intelligible on the record.

Mr. SOMMERVILLE: The witness is filing a statement showing the consumers' cash prices for various mixed fertilizers and 10 per cent superphosphates from 1929 to the present time.

WITNESS: In Ontario.

Mr. SOMMERVILLE: And indicating the drop in prices that has taken place on these fertilizers?

WITNESS: Right.

(Statement showing consumers' cash prices for mixed fertilizers, 10 per cent superphosphates, 1929 to date, filed marked exhibit 188.)

WITNESS: We were asked this morning had the price gone up a couple of dollars this spring of 1934 versus last spring. I think this statement will indicate that that is not correct. Now, I would like to point out in connection with this statement—I would like to point out that the duty of 10 per cent on mixed fertilizers and bagged superphosphates came into effect September 10, 1930. That is right on the statement. If you will look at the spring of 1930 versus the spring of 1931 prices you will notice that very item dropped. The reason was that it was figured that if the importations kept out our tonnage would increase and that we could afford to drop our prices.

By Mr. Young:

Q. Alongside of this you will file the prices of the ingredients on the world's market to see whether the prices here dropped any faster than they did outside of Canada?—A. You mean if the raw materials dropped?

Q. No, the superphosphate itself. You say you lowered the price $2?—A. I am not saying only superphosphate.

Q. You lowered the price of mixed fertilizer because you had the market to yourself. What we want to know is what happened to the price outside of Canada at the same time?—A. It probably went down and as far as I know, it did.

Q. Did it go down faster than it went down in Canada?—A. I could not answer that question.

Q. You have no idea?—A. I am afraid I have not.

Q. I am afraid your argument that you lowered the price because you had the market to yourself does not hold water?—A. It is a fact. The price came down when the duty came on. You cannot get away from that.

Mr. FACTOR: It is a coincidence.

By Mr. Young:

Q. The question we are concerned with is did it go down as much as it would have gone down if the duty had not gone on?—A. I will put it this way. If we had not got additional tonnage our costs would have gone up.

Q. I am speaking of the farmers' costs at the moment?—A. You are asking me if the duty had not gone on if the price would be lower than it is?

Q. Yes.—A. I do not think so. We certainly could not afford to make it any lower.

Q. I am not concerned whether you are making it at all or not; I am concerned about what the farmer is paying for it?—A. I believe if the duty was taken off and if it was offered freely in here we would face the situation—I do not know if I am prepared to give the answer as to whether we would continue to operate or whether we would try to get a higher price and stay with what business we could get or not. It would be rather a serious decision.

Q. What we want to know is if the duty were off could the farmer buy his fertilizer cheaper?—A. I do not think he could. I will tell you this that in the United States this spring the duty went on—the price in fertilizer, I understand, has gone up $4 to $6 a ton.

Q. They are operating under some form of protection over there and the price has gone up. We are operating under a lesser protection and perhaps if we could get rid of it prices would come down?—A. Coincidence, if you like; it went down when we got the protection.

By Mr. Ilsley:

Q. There is one point about the superphosphate. The item is 663:

> Articles which enter into the cost of the manufacture of fertilizer when imported for use exclusively in the manufacture of fertilizers.

Free, free, free. You say that the interpretation is that when superphosphate comes in and does not enter into the manufacture of fertilizers and is merely mixed with the soil it is treated as thereby becoming a new fertilizer and, therefore, comes under that section?—A. That is really my understanding.

Mr. Sommerville: I do not think so.

Mr. Ilsley: That is not what the section says.

The Witness: There is this to it. If any farmer needs to bring it in legitimately he may mix it with potash and the other part of it and then it comes in duty free.

Mr. Ilsley: Yes, it comes under the wording of the section.

By Mr. Sommerville:

Q. If he can get it; but what they say is that from the sources in the United States from which they would get it they find difficulty in getting it and they suspect it is because of some arrangement with the Canadian manufacturer?—A. That is right.

Q. The Canadian manufacturers are the largest customers of these American firms and, therefore, they cannot get it unless they are recognized fertilizer mixers?—A. I think they can buy it freely.

Q. That is their evidence at any rate?—A. All right. That is not my viewpoint.

Q. I would be surprised if they could buy it freely against many of their largest customers?—A. I am their competitor.

Q. If you were one of their largest customers in buying that raw material from the United States I would be surprised if anybody could write down to the States and buy from that same firm in competition with you?—A. Well, I think they could.

By Mr. Ilsley:

Q. There is one other point suggested by Mr. Smith yesterday that, perhaps, the reason the prices were so low in Quebec and the Maritimes was because there was a price war on between yourselves and this International company which was described as a Holland company with plants at St. John and Quebec. Now, is that the case?—A. The International are members of our group. There is nothing to it.

Q. That is not the case?—A. No, it is not. I will also file with the committee the losses of Canadian Industries Limited, fertilizer division. For 1931, $116,000; 1932, $130,000; 1933, $122,000.

By Mr. Sommerville:

Q. It has been suggested in the growers' brief, Mr. Grubb, that by reason of the recent advances in the making of fertilizers that there is considerable plant

and equipment carried by the fertilizer companies that is quite unnecessary, and that the cost, the overhead and the depreciation on those plants have created a condition where there are losses?—A. In that case they are presumably figuring that if everybody home-mixed it would not be necessary to have fertilizer plants.

Mr. SOMMERVILLE: No. That is not the indication.

The WITNESS: Aside from that, I remember the matter, and I say it was not clear to me, because they mentioned " except superphosphate," if I remember the way the clause read—page 29, I think.

By Mr. Kennedy (Peace River):

Q. What do you need for home-made mixing plant—a shovel and a few cradles?—A. A shovel and a barn floor; that is all—a little muscle.

The CHAIRMAN: We were told most of them had the latter.

By Mr. Factor:

Q. In this statement on the profit and loss account you kept a separate account for the fertilizer division?—A. Yes.

Q. Did you charge up salaries of the executives to that department?—A. That is worked out on proportion. As the Canadian Industries is in a large extent a holding company, we have eleven—ten or eleven different divisions or administrations as we call it so that the salaries of officials and items that cover the Canadian Industries as a whole is split on a basis that is worked out by our auditors. I believe it is on capital investment in different divisions—profits and losses in the different divisions and turnover in the different divisions. We get our proportion.

By the Chairman:

Q. Do you keep your Ontario plant separate from your Quebec plant?—A. No, but it could be very easily separated.

Q. Where does this loss occur, in Ontario or Quebec or where?—A. Well, we have never separated the accounts as between the Maritimes, Quebec and Ontario. We have separated the British Columbia account chiefly for the reason that we began out there in 1899 and the thing was carried along, and we went into business in Canada, in eastern Canada as a whole. In order to cut down bookkeeping and cut down everything else we have tried to keep it in the one account.

The CHAIRMAN: You have a pretty good idea.

The WITNESS: I would say that our loss is undoubtedly in the three provinces.

By Mr. Sommerville:

Q. Proportionately in the Maritimes where you give delivery for the same price as the Quebec price?—A. I would not be sure of that. I would rather break that down because, as I say, our costs down there are somewhat low; but we would be very glad to break down that statement and submit it, or have your own auditors do it.

Mr. SENN: I think that should be done; it is quite important.

The WITNESS: Here is the clause:—" we have reason to believe the farmers in respect to this last item are being asked to carry investments which in the light of modern knowledge of fertilizers are no longer economically sound." The item was referred to, " Investment in plants for the manufacture of fertilizers, exclusive of superphosphate." I do not quite understand " exclusive of superphosphate." If they mean that superphosphate can be made in more modern plants than we have—

Mr. SOMMERVILLE: No. they mean the reverse. The investment in plants for the manufacture of fertilizers.

The WITNESS: Of mixed fertilizers? I can only speak for our plant. We built our plant in eastern Ontario about four years ago—Ontario and Quebec four years ago. The one we have in the Maritimes we took over from Peter Jack and it was two years old. We have modern plants. When we built the plants of Quebec and Ontario our engineering department and our chemical department went through all the plants we could in the southern states. We got the best points we could get, and to the best of our knowledge we have the most modern plants in the world. We certainly hope so.

By Mr. Factor:

Q. What about the capacity of your plants in the mixing of fertilizers: is your capacity greater than you use now?—A. The capacity in Ontario, I think is about twice the consumption as a whole.

Q. The total capacity?—A. The total capacity.

Q. Your own capacity is very much larger than your consumption?—A. Yes.

By Mr. Ilsley:

Q. Is your company a subsidiary of the Imperial Chemicals?—A. No. Our company has as its largest stockholders the Imperial Chemicals and the Dupont Powder of the United States, neither one controls it. They both have seats on our board. There is additional stock outside of what they hold. We run our own show in Canada, always being able to get any information or help that we want in a technical way or a practical way from either of the others.

By Mr. Young:

Q. But they will not fill any orders?—A. When it comes to fertilizers the Dupont do not manufacture fertilizers of superphosphates. The Imperial Chemicals manufacture nitrogen. That is nitrogen of soda and sulphate of ammonia. They do not make superphosphates. Excuse me, they make superphosphate in one little old fashioned plant. Recently when there was a shortage of sulphate of ammonia in Canada—and I speak of a shipment that was required in May of this year—the goods were not forthcoming in Canada. The Imperial Chemicals would have liked to have taken the business but the home market price in England is considerably higher than it is in Canada and we felt that if they shipped to Canada there would be a dump assessed. I believe the sulphite of ammonia eventually came from Holland, or is coming from Holland.

Q. The price in England is higher than in Canada; and the price in the United States—is that higher than in Canada?—A. The price in the United States on sulphite of ammonia in carload lots to-day is the same as in Canada.

Q. It is cheaper in Holland?—A. It is cheaper than in the United States. They are able to bring it in without paying dump on Canadian prices, so it must be cheaper. Our friends the Imperial Chemicals could not ship any and it was a sizable order, 3,000 tons, which is $75,000 which they would like to have had.

Q. Do you know anything about this Dutch company operating in Quebec? —A. That is the International Fertilizer. Now, I think I covered that. I have a comparison of the costs of 2-12-6, 4-8-10 and 2-8-6 which was asked for in both plants, and I will hand that in to the committee. This covers our actual costs for the year 1933 at both plants. We are putting in the 2-8-6 as we do not make any. This statement shows the cost of Beloeil which I said I would disclose to you. It includes as a depreciation charge on our plants and machinery 4½ per cent which I think is reasonable in our costs. No interest on investment is ever shown on materials. It also shows our selling expense, our advertising and publicity, our administration of which I spoke and our development.

By Mr. Sommerville:

Q. And this covers 2-12-6?—A. 4-8-10 which are made at the two plants in question.

(Statement filed, marked exhibit 189).

We were asked to file our prices in Ontario and Quebec which I do. We will send the others later. Attached to the prices are our instructions to our dealers or agents which are for their understanding.

(List of prices and instructions to agents filed, marked exhibit 190).

We were asked for the set-up showing our operative investment. I will file with the committee such a statement for the year ending March, 1933. The statement shows the amount invested in ingredients, in finished products, in plants, in open accounts. It separates our superphosphate plants from our dry mixing plants.

(Statement for the year ending March 31st showing set-up operative investment, filed, marked exhibit 191).

By Mr. Factor:

Q. When was the C.I.L. formed?—A. Canadian Industries Limited was formed in 1927—I think the change in name was made in 1926, or 1927—1927.

By Mr. Kennedy (Peace River):

Q. Did you do pretty well up to the coming of the depression?—A. We were not in the fertilizer business, except in British Columbia. I presume you are referring to the fertilizer end of the business.

Q. Yes?—A. We were not in it.

Q. Except in British Columbia?—A. Except in British Columbia.

Q. You started in it in 1931?—A. In 1930 or 1931, I think it was in the fall of 1930.

Q. Now, you are going to file with us minutes of the meeting of the Ontario, or the Eastern Canada Association?—A. They are there, that is the last meeting.

By the Chairman:

Q. You made the price in 1934?—A. Not our own price, these are taken from other price lists. I merely wanted to show the general trend. These are the notes that were drawn up from the minutes of the meeting held in February, according to the book there.

By Mr. Sommerville:

Q. February 12, 1934?—A. That is in connection with our present spring schedule, and these instructions are, I think, complete, practically to the last detail.

Q. Yes, and these instructions then constitute your understanding of what was agreed upon at that meeting?—A. Right.

Q. And it sets out the Ontario price schedule, terms, etc?—A. It does, together with a list of anybody getting special prices.

Q. Together with a list of anybody getting special prices, and I see a list of firms mentioned here; when you say special prices, these would be known to the rest of the trade?—A. Members of the trade.

Q. Your association?—A. Yes.

Q. And these facts and figures that you are now submitting would be known to the rest of the members of your association?—A. To our association.

Q. Well, this must have taken quite a time to work out?—A. A committee was appointed to work that out, based on the discussions at the meeting naturally.

Q. And this is fixing the trucking allowance which has been made from factory points to the growers?—A. Yes.

Q. Carload freight rates, trucking allowances; and then was this distributed from headquarters of the association to the various members of the association?—A. I should say the secretary mailed it. I got my copy in the mail.

Q. From Mr. Mooney, the secretary?—A. I would say so.

Q. That is from the association. These are what Mr. Grubb referred to as the minutes that show the results of their consultation on prices, terms, and conditions right through the spring season of 1934?—A. That is right.

(Statement filed as Exhibit 192).

By Mr. Sommerville:

Q. Yes.—A. The Question came up yesterday in connection with the Timothy Eaton Company, and about 9 firms in Toronto who were referred to as seed houses, and the suggestion was made that as they were "good boys" that they get their 5 per cent back without having to wait for it.

Q. Yes?—A. Now, I think in fairness a little further explanation is necessary. To these 9 I notice that C.I.L. made sales to all of them. Whether the rest of the association members made sales to all of them or not I do not know. With the exception of the Dale Estate, of Brampton, they are all located in Toronto. The sales are on a hand-to-mouth basis, and the amount of the entire bunch is 45 tons. The results, as I was saying Ontario shows 21,000 tons was very small. They would order from one to three bags of fertilizer at a time, and they would get it. We did not want a lot of additional bookkeeping, and in order to get rid of taking care of all these separate items in our office,—if they lived up to their obligations until July 1st, they would have lived up to the stipulation that they would get back their 5 per cent,—the Canadian Industries was responsible for their getting back their 5 per cent immediately. My sales manager says this is causing me a lot of trouble in my office, and I said notify secretary Mooney of our proposal to give these people full discount right off the bat and clear it up. It will then be Mr. Mooney's duty to circularize the contents of my letter to the other members of the association.

Q. There are a lot of our people who would like to be in the same position, if it is a matter of saving bookkeeping, your bookkeeping could be saved to a very much greater extent?—A. The main idea of our withholding the 5 per cent is to keep our distributors in Ontario in the business; and I will also say that in many instances we have heard from them and they heartily endorse the present practice of holding back that money to assist in having everybody sell at the retail price.

Q. That is to say, they would be longer in the business if you hold their money for three months?—A. And they can sell at a profit, that is part of the story. Another piece of evidence came up here, and while possibly we are not the firm intended, I think it is only fair in reply to say that Mr. Craise advised that the Ontario market council tried to buy fertilizer at the Quebec price and were refused. We think an error has crept in.

Q. You say you would refuse them now?—A. I say I would refuse them. But I would like to explain this little transaction, it will only take a few moments. We had a letter from Mr. Bower in 1932 to the effect that he could sell—or, if we would be interested in having the consumption of fertilizer materially increased in Ontario. I wired him saying that I would drop in and see him. I did see Mr. Bower and Mr. Paul Fisher, who I believe is one of the directors, and Mr. Paul Fisher explained that they would like to get the Quebec price—they wanted to buy cheaper than anybody in Ontario, and they wanted to go out and sell everybody and put our competitors out of business. I explained that we could not sell at the Quebec price because I did not have the necessary amount of acids and cheap material up there. I just asked him, was he prepared to give me orders in the fall for a definite tonnage and I could get busy and make it. He said no, we

can't do that. I also said, what about financial responsibility; I understood the Canadian Markets Council was an association and he rather led me to believe that as they got a grant from the Ontario government I should not question their credit. However, I had our Mr. Carter, Sales Manager for Ontario, interview Mr. Fairbairn, whom I believe is the Deputy Minister of Agriculture, and he said the Ontario Markets Council is not in the fertilizer business and they are not going into the fertilizer business.

Mr. Grose, in his evidence yesterday: at page 2037 of the evidence, he said that we would not sell in Toronto. Now, while that is the statement, still he never asked the Canadian Industries if we would sell in Toronto at Quebec prices. So he took it for granted.

Mr. Factor: He was right.

By Mr. Sommerville:

Q. He was right. He must have known?—A. He is right.

By the Chairman:

Q. Why bring it in question, you have told us three or four times today you won't. I would not waste any more time on it. Perhaps Mr. Gross was right. He may have been guessing, but he guessed right?—A. Well, he was guessing.

Q. That is all right, but why affirm it now?—A. I think if a man is making sworn evidence he should stick to facts, he may have been refused.

By Mr. Sommerville:

Q. He must have been refused by some of your people, or all of them; you do not know of it?—A. He might have been. The other statement brings out—by the way, the depreciation on our plant is 4.5 per cent. By inference I rather gather it might be very much greater on some of these plants, they have been written off twice, ours has not. I think that winds me up, unless there are any questions.

By Mr. Kennedy (Peace River):

Q. With regard to supplying raw materials to the farmer, Super-Phosphate for instance: you have made the statement a number of times that you would supply Super-Phosphate. Would you supply the other ingredients if somebody came along with the money, or with a good line of credit, to enable the farmers to mix suitable mixtures for different crops; or is it just Super-Phosphate that you intend to sell?—A. We will supply any of them. We do not make a point of pressing the sale of ingredients, aside from Super-Phosphate, because that is not our business.

Q. But you would sell any of them?—A. We will sell any.

Q. Why do you say, on the other hand, you will not supply certain things to farmers?—A. We will sell anything in the fertilizer industry.

Q. To anybody, anywhere?

Mr. Sommerville: At a price

By Mr. Kennedy (Winnipeg):

Q. At a price which makes it practically impossible for them to buy?—A. If there are any quantity buyers they can buy in carload lots, which really I think is a very good price.

Q. Personally I think that your evidence has been very illuminating, and very frankly put?—A. Thank you.

Q. Would it not be just as well to carry it right through. I am not saying it is wrong, to just state frankly; you have intimated to the committee that after all your business is the manufacture of fertilizers, blending the different ingredients and selling the finished product?—A. Yes.

Q. Not only do you not press the sales of individual ingredients to farmers, but you really actively discourage such sales. Let us just take that side of it, is not that a fact?—A. If we discouraged them absolutely, we would not put them on our price list.

Q. Not absolutely. But your general policy is—A. Yes, I should say yes.

Q. To discourage the purchase by farmers of individual ingredients?—A. Yes, I think that is fair.

Q. And one method of discouraging it is putting the price, we won't say making it prohibitive, at such a height that it is not practical for them to purchase?—A. Yes, but I will say this: this situation has crept up here, and seemingly there has been much difference of opinion on it; first, our entire sales are .58 per cent. I would much rather drop the price $10 a ton, it does not amount to enough to us, and sell them and clean up the argument on our next price list.

Q. My feeling is, Mr. Grubb, whatever are the facts if they are frankly stated, and you assume the responsibility naturally for such a policy, I can imagine that manufacturers who may be manufacturing certain lines of articles that require blends, they would not be disposed to sell the individual the component parts of such blends, and that apparently is the situation. I think it would clear the atmosphere if you would state that?—A. I am quite willing to state that.

Mr. SOMMERVILLE: Thank you, Mr. Grubb.

The WITNESS: Thank you all for your patience.

The Witness was discharged.

Mr. SOMMERVILLE: We come now to a consideration of the rubber industry, and Mr. Hannay will present the introduction to this subject in a very short statement. After that, Mr. Sargeant will deal with the tire section, and Mr. Carlisle will then deal with the footwear section.

Mr. A. B. HANNAY, called and sworn.

By Mr. Sommerville:

Q. Mr. Hannay, you are secretary of an association known as the Rubber Manufacturers of Canada?—A. No, it is the Rubber Association of Canada.

Q. And in that association you have at least two sections?—A. Yes.

Q. And one section is known as what?—A. One section is known as the tire group, and the other section is the Rubber Footwear Manufacturers Association, although I would not say that they were in the Rubber Association. The members of these two groups, for the most part, are members of the Rubber Association and use its facilities.

Q. Yes, but there are in the Rubber Association then these two groups?—A. Well, the members of these two groups are members of the Rubber Association.

Q. And you are secretary?—A. Of the Rubber Association.

Q. Then the Footwear Group have their own secretary, have they?—A. Footwear Group have their own secretary.

Q. And the tire group have their own secretary?—A. I have frequently acted as secretary for the tire group.

Q. We will thank you for your statement now, Mr. Hannay?—A. May I preface the statement by saying that under date of April 4, I received a letter from Mr. Hereford; the Rubber Association having been mentioned by some witness before the committee, Mr. Hereford wrote and asked for certain information, and asked if I would obtain it for him. Now, the information he asks for briefly—

Q. You have it available now?—A. I have his letter. Arrangements regarding discounts allowed from list price, volume of rubber footwear and tires sold in 1933 in each customer-price classification, arrangements regarding resale price, imports of merchandise for five years and exports for five years, volume of business on footwear and tires, assets, realty and land values, duties paid, taxes paid, their payrolls for each week of 1933 and for each factory, number of employees by manufacturers for the year—male and female, and transportation charges. On all these questions I have applied to the members and they have supplied me with the information, which I have compiled and will submit. Let me preface it by reading a brief memorandum, rather explanatory. May I say that the groups have asked me to read their memoranda, and after that will answer any questions or submit to an examination—the people who are actually operating.

The Rubber Association of Canada has been directed to furnish this committee of parliament with information regarding the production of rubber goods in Canada and the merchandising distribution of such goods in Canada and elsewhere. In addition to information calculated to measure the Canadian rubber industry in its totality, specific information has been asked for as to production, merchandising, employment and pay afforded, specifically, by the rubber tire industry and the rubber footwear industry of the country, as well as information relative to the exportation and importation of these goods. All the information desired of it will be given by the association as far as it is possible to do so. Certain information regarding the merchandising of rubber footwear will be presented by representatives of the Rubber Footwear Manufacturers Association, and certain information regarding tire merchandising will be presented by the Tire Manufacturing Group.

The Rubber Association of Canada, proper, was formed fourteen years ago, chiefly for the purpose of enabling information to be contributed confidentially by association members and compiled into weekly, monthly and annual statements of inventories, production, sales, etc., of tires, footwear and other rubber goods, so that each company-member would have something definite with which to measure itself and be guided in its producing and distributing activities and methods.

It is agreed by association companies that this voluntary contribution of information by each, to be consolidated for the whole industry and its various branches, has been invaluable guidance to companies. It has directed them to seek business more actively at such times as demand and buying power existed and when business was to be had if properly sought. Also, in times of lower demand, figures disclosing smaller business for the whole industry, have shown the individual company that its loss of sales was proportionate to the decline of the whole and has thereby discouraged or prevented the individual company from resorting to improvident methods to obtain business that did not exist; when, but for this exchange of information and totalling of figures, a company might have believed its loss of sales was due to the activities of competitors, and have resorted to methods disadvantageous to itself and to the industry as a whole. This compilation of statistics perhaps has been the most useful feature of the association's work. The statistics compiled for the guidance of association members afford answers to most of the questions now asked on behalf of this committee, not merely for last year, but for many preceding years. A

statement is here offered giving, for the past fourteen years, the annual sales, employment, pay, assets, duties paid, taxes paid and freight paid. The statistics show that the Canadian rubber manufacturing business which was $66,500,000 in 1920 and $85,250,000 in 1928, last year amounted to only $35,400,000 or considerably less than half the peak and not much more than half of what it was fourteen years ago.

By Mr. Senn:

Q. That would be due to a lower price, or would it be due to a volume of business?—A. The volume of business is off too. I will submit figures to show that.

In tires, the business fell from $47,800,000 in 1928 to $15,900,000 in 1933, a decline of more than two-thirds. In footwear the business was $27,483,000 in 1928 and about half that, or $14,000,000 in 1933. Exports of all rubber goods declined from $28,270,000 in 1929 to $6,400,000 last year, or less than a fourth of the peak. Unit production figures confirm the decline in manufacturing indicated by the dollar figures. In 1928 there were produced in Canada a total of 4,252,000 tires and in 1933 the production was 1,844,000 tires, being a reduction of 2,408,000 units or 56·6 per cent. In 1928 there were 23,941,000 pairs of rubber footwear produced and in 1933 the pairage production was 13,716,000, a decline of 10,225,000 pairs or 42·7 per cent.

These figures show that in plant capacity and in experienced work-people Canada is much over-supplied for to-day's volume of business available and indicate why the average annual number of persons employed in Canadian rubber manufacturing declined from 17,896 in 1929 to 10,936 in 1933, the decline being 6,960 persons or 38·8 per cent; and why salaries and wages which totalled $21,725,000 in 1929 fell to $10,608,000 in 1933, a decline of $11,116,000 or 51 per cent.

While earnings declined 51 per cent, employment declined only 38·8 per cent. This was due to the fact that the Canadian Rubber Manufacturing endeavoured to spread over as large a number of employees as possible the available volume of production, which necessitated going to a shorter hour week.

In answer to an inquiry from the Committee, it may be stated that Association and Government figures show the following for the industry for the year 1933:

Assets..	$76,331,256	
Realty and Plant values..	44,539,096	
Duties paid..	309,540	
Taxes paid..	2,388,845	
Transportation charges paid..	1,950,772	
Average daily employment..	10,936	persons
Total pay-roll..	10,608,664	

Statements showing production of goods and the importation and exportation of tires and of rubber footwear are attached as exhibits.

Mr. Kennedy (Peace River):

Q. Just before you go on from there, is there any improvement reflected in the current year?—A. I think there are indications of a slight improvement, those are the indications from the early months of the year.

By Mr. Factor:

Q. Who composes the Rubber Association, the rubber manufacturers?—A. The rubber manufacturers—it is inclusive of the leading and of most of the rubber manufacturers of the country, they are nearly all in it; that is, tires and belts and everything else.

The tire people asked me to read this:—

TIRE MERCHANDISING PRESENTED BY THE TIRE MANUFACTURING GROUP OF THE RUBBER ASSOCIATION OF CANADA

In the Canadian Tire Industry the producing companies are Goodyear, Dunlop, Gutta Percha, Firestone, Dominion, Goodrich and Seiberling, all of which are members of the Association. Outside the Association, the following companies manufacture tires and tubes—Perfection Rubber Company, Ltd., Lachine, Quebec; Hannon Tire & Rubber Company, Toronto and The Niagara Rubber Company of Beamsville, Ontario.

The producing capacity of Canadian tire and tube plants is more than three times the present rate of production. The Association Companies meet and confer upon production and merchandising problems and exchange information as to credits and tire adjusting.

The Association Companies distribute their goods from factory (*a*) to company branches, to distributors or jobbers or to warehousemen or to dealers; or (*b*) through chain-stores and mail-order houses.

In 1933 the sales of tires and tubes by the seven Associated Companies were as follows:—

To regular dealers..	$7,569,239 42	
To distributors and jobbers..	1,860,912 87	
		$9,430,152 29
To private-brand customer accounts..		$1,059,234 10

The Association Companies issue price lists from which the dealer is sold at 20 per cent trade and 2 per cent cash discount on tires and 35 per cent and 2 per cent on tubes, plus earned bonus. The dealer may earn a bonus for volume sales. The bonus rates to dealers for passenger car sizes range from 2 per cent on sales between $500 to $1,500 a year and 10 per cent for annual sales of $30,000 or over. For bus and truck sizes, there is an additional volume bonus ranging from 2 per cent on sales volume from $2,500 to $5,000 and 5 per cent on sales volume of $25,000 and over.

There are approximately 13,000 dealers in Canada. Approximately 40 per cent of tire dealers earn a bonus. The average bonus paid in 1933 was about 5 per cent. Tables of the bonus scale are attached.

On shipments of 100 pounds and over to all customers, companies prepay transportation charges.

Sales tax is included in the list prices and is, therefore, absorbed by the manufacturer.

The excise tax of 2 cents per pound on tires and 3 cents per pound on tubes is charged to and paid by the dealer or the purchaser.

From the price to the dealer, the distributor receives a maximum discount of 15 per cent. The warehouseman is paid 5 per cent on the value of the goods delivered from his warehouse.

Private brand tires: In 1933, three of the association companies and three non-association companies manufactured and sold private brand tires. The following is a statement of the discounts from price list accorded to private brand accounts by the association companies.

The first discount is on the equivalent to standard—that is standard company—first and second line tires; the discount is 38 per cent net. The second discount is 41·4 per cent net, and the third discount, comparable to the first and second ones, is 44·2 per cent. There is a discount which is to be described as equivalent in quality to standard first and second line tires, with rubber,

cotton and moulds supplied by customer; the manufacturer charges for fabricating cost plus. Equivalent in quality to second line tire is a discount of 38·8 per cent net, and another of 44 per cent. On the third line, there is a discount of 33 per cent; on another line of customer or manufacturer, of 34·38 per cent; another of 35·2 per cent, and another of 36·2 per cent.

Using the above discount, the following is a comparison of the prices at which tires are sold in eastern Canada by tire manufacturers, taking as an example a popular size tire—4·75 x 19 in the first, second and third grades. Now, taking the first grade, the dealer's cost, if he earned the maximum bonus for that tire, would be $7.75, and if he earned the average bonus of 5 per cent, it would be $8.18; and if his business was so small he earned no bonus, the tire would cost him $8.60. On the second line of tire, with a maximum bonus, the price would be $6.67; with the average bonus, $7.03, and with no bonus, $7.39. On the third line, with the maximum bonus, the price would be $5.01; with the average bonus, $5.27, and with no bonus, $5.54. The list price for the first line is $10.55, 20 per cent off that for the trade discount, and the 33 cent poundage tax, excise tax. The second line, the list price is $9, with 20 per cent off, plus 33 cents excise tax; and the third line, $6.65 and excise tax; also 20 per cent discount.

By Mr. Sommerville:

Q. All those prices that are mentioned are subject to a 20 per cent discount?—A. Yes, to the dealer.

Q. To the dealer?—A. To the buying dealer.

Q. That is 20 per cent. That is reflected in your earlier memorandum that it would be $8.60 on the first line if he didn't get any bonus; $8.18 if he got a bonus of 5 per cent, and $7.75 if he got a bonus of 10 per cent?—A. That is correct. Now, the customer's private brand net cost contrasted with the mail order selling price—

By Mr. Ilsley:

Q. I don't understand about these private brands?—A. The private brand is a brand that is made by a manufacturer for an account which he sells. The tire is branded with the name of the seller, not with the name of the manufacturer.

Mr. SOMMERVILLE: The distributor. It is a mail order brand, something specially made up for firms.

Mr. ILSLEY: Oh, yes.

The WITNESS: That is a common trade term, private brand tire.

By Mr. Sommerville:

Q. I observe with respect to these private brands, that the amount of discount varies all the way from 33 per cent to 48 per cent?—A. Yes.

Q. No, I am mistaken—44 per cent?—A. Yes.

Q. As shown in this statement?—A. Yes.

Q. But there is one contract apparently outstanding in which the amount of discount is not shown?—A. True.

Q. Because in that case the brand is made, or the tire is made on a cost plus basis?—A. True.

Q. And the cost plus basis is made up of the cost of fabricating?—A. Yes.

Q. The rubber and the cotton and the moulds being supplied by the customer for whom the special tires are made?—A. Yes, that is the statement.

Q. That is the statement?—A. Yes.

By Mr. Senn:

Q. Mr. Hannay, those tires, I suppose, are made on different specification from the standard tires?—A. Well, I really am not able to answer technically; but others who have been subpoenaed and are present will be able to answer that last question. I can't answer with confidence, if you will pardon me.

Q. But you know something about advertising methods?—A. That would be very gladly given, but I am not in a position to give it.

Mr. ILSLEY: Are there varying discounts as between private brands?

Mr. SOMMERVILLE: Apparently, yes. There is a list of ten different private brand contracts, and these ten different private brand contracts contain certain definite discounts. The variety of discounts is shown in the statement just read by Mr. Hannay.

The WITNESS: Yes.

Mr. SOMMERVILLE: As running from 33 per cent up to 44·2 per cent, according to the various contracts.

Mr. KENNEDY (*Peace River*): The average dealer gets 12½ per cent.

Mr. SOMMERVILLE: The dealer gets 20 per cent, plus a bonus if he sells from 500 to 1,500, of 2 per cent; and a bonus if he sells over 30,000, of 10 per cent.

By Mr. Ilsley:

Q. That means that this private brand discount does not depend on the quantity bought; it depends on the brand, to some extent. Is that correct?—A. I am really not able to answer that. I suppose it is. If a manufacturer makes a contract with a customer for a private brand tire, he must have some idea. This is only assumption.

Mr. SOMMERVILLE: We will get that.

By Mr. Ilsley:

Q. I understood you to refer to three non-association companies?—A. Yes.

Q. Are there some companies outside of the association?—A. Yes. We are not able to speak for them. Then, contrasting the customer's cost of his private brand with the mail order selling price, in this size tire and type, being 4·75 by 19, 4-ply, applying that first discount of 38 per cent, gives the private brand cost for that, on that tire, of $6.87.

By Mr. Sommerville:

Q. That is the net cost to the firm for whom the private brand is made in that first and second line?—A. No, it is the net cost to the private brand company.

Q. To the private brand company?—A. That is what the private brand company would pay for it.

Q. That is what I say. The private brand company that buys them, pays for them $6.87?—A. Yes.

Q. That is what I thought?—A. And the next one is $6.51, and $6.52.

Q. $6.22, according to the statement I have got?—A. Yes, $6.22. 38 per cent discount, 31·4 and 44·2 are the discounts applied. The mail order selling price for that tire is $7.75 catalogued, and $7.90 in the maritimes, where they catalogue it a little higher. In the case of the second grade tire, one is bought by private brand for $5.84, and another at $5.37, and each sold for $6.50. The third line, one is bought for $4.79; another for $4.69; another for $4.64; another for $4.57; and that is sold for $5.50, catalogued.

Q. Mail order?—A. Yes. Now a comparison of dealer's net costs with private brand customer's average net cost, exclusive of the cost plus tires that

you mentioned. All the other tires than that cost plus are applied to this comparison. Under (A), that is with maximum bonus of 20 per cent, the net cost to the dealer is $7.75, and to the private brand for a similar tire, $6.53, a difference of $1.22 or 15 per cent.

Q. The regular dealer pays 15 per cent more?—A. Or the private brand buys for less. I am not sure which way it is.

Q. Or the private brand buys for 15 per cent less than the dealer?—A. Either one way or the other.

By Mr. Ilsley:

Q. Is that the dealer that gets the maximum bonus?—A. That is getting the maximum bonus. I will give you the figures on the other bonuses.

By Mr. Young:

Q. Those are the same tires, except with a different name?—A. Not always, sir, I believe. Again I must plead not very sure information. On the second tire, the dealer with the maximum bonus would buy for $6.67 and the private brand for $5.61, a difference of $1.06 or 15·8 per cent. On the third, the cost to the dealer with the maximum bonus is $5.01, the private brand cost, $4.67, a difference of 34 cents or 6·8 per cent on the third line tire. Now, making a comparison with the average bonus earned, that is 5 per cent, the first is $8.18 as the dealer's cost; the private brand cost, $6.53, a difference of $1.65 or 20·2 per cent. On the second, dealer's cost, $7.03; private brand cost, $5.61, a difference of $1.42 or 21·9 per cent. On the third, $5.27 for the dealer; $4.67 for the private brand, a difference of 60 cents or 11·4 per cent.

With the dealer getting no bonus, $8.60 against $6.53 for the private brand, a difference of $2.07 or 24·1 per cent; on the second one, $7.39 against $5.61, a difference of $1.78 or 24 per cent; and on the third, $5.54 against a private brand cost of $4.67, a difference of 87 cents or 15·7 per cent.

Q. All the percentages you have given us have been percentages of the amount by which the private brand is bought by the special customer less than a similar type tire would be bought by the regular dealer?—A. That is correct.

By Mr. Young:

Q. Whether it is the same tire or not?—A. It may not be the same tire, but they are regarded as similar.

By Mr. Ilsley:

Q. It looks just as good to the consumer?—A. You are as good judges as to that, as I am. The tires are not identical, but they are similar.

It is pointed out by the manufacturers of customer's private brand tires that the above spread in the prices of manufacturers' branded tires to the dealer, as against those charged the mail order houses for private brand tires, includes distribution costs as the manufacturer is relieved of freight, warehouse and advertising expense.

Statement by association companies on their weekly or bi-monthly factory payrolls, and employees for each month of 1933, showing male and female separately, are here offered for study by the committee.

By Mr. Ilsley:

Q. Before you leave this private brand story, are they overtaking the others, the ones that are sold to the dealers?—A. I don't think I understand your question.

Mr. SOMMERVILLE: Is the quantity increasing?

By Mr. Ilsley:

Q. Is the quantity increasing in proportion to the ones sold in the regular way to the dealers?—A. I don't think I am able to answer that.

Q. You have those figures somewhere in that brief?—A. No. These figures were separately filed, I think. They were asked for by the committee.

Mr. SOMMERVILLE: I have them here for 1933.

The WITNESS: I am not able to contrast the past with the present in that.

By Mr. Sommerville:

Q. But you have given the figures for 1933?—A. Yes.

Q. That the total sale of tires by the seven association members to regular dealers and jobbers, amounted to $9,430,152.29?—A. Yes, that is the statement.

Q. While the sales of the seven association companies to private brand customers was $1,059,234.10?—A. Right.

Q. That is for 1933?—A. Yes. Those are figures that were provided me after the committee asked for that information. I obtained the figures from the various companies and put them together.

Mr. ILSLEY: Special customers seem to have an extraordinary advantage in purchasing tires. It would look as if they would be driving the others out, if it kept on.

The CHAIRMAN: There is a witness who will give that.

The WITNESS: Yes, Mr. Sargeant, I think.

The CHAIRMAN: We will leave that to him. He will be able to answer that much better.

By Mr. Sommerville:

Q. Before you pass on then, in the comparison of the dealer's net cost with the private brand customer's cost, you have not given us the price or the advantage that it is to that private brand customer who buys his tires on a cost plus basis?—A. I think that may be provided by a subsequent witness.

Q. I anticipate that that is more than, or a greater advantage than 44 per cent?—A. I am not able to answer that.

Q. As shown as a special discount on this?—A. I am not able to tell you.

The CHAIRMAN: One of the other witnesses will.

Mr. SOMMERVILLE: All right. I just wanted to have that clear.

The WITNESS: Now, I have the figures of pay, the number of employees weekly, the total earnings weekly, and the average weekly earnings, male and female, and male under 18 years—that is boys—for each of 52 weeks, and these are submitted by each company.

By Mr. Factor:

Q. What year is that?—A. That is for the year 1933.

By Mr. Sommerville:

Q. This is what?—A. That is one company. Here are figures for another company. I have them for each company. Then, because some of the companies gave them to me weekly, and some of them gave them for twice a month, gave them to me in two-week periods, it was impossible to put them together, so I am submitting them for each factory.

Q. I think perhaps rather than examine on those at the present moment, if you will be good enough to leave them for us so that they can be studied, it would be better?—A. That is what I brought them for.

Q. If you will keep them altogether?—A. I will keep them altogether.

Q. And they will be filed as an exhibit now?—A. Yes.

By the Chairman:

Q. Just hand them in now, and we will file them as an exhibit?—A. In this connection, I may say, that these are sometimes accompanied by explanatory memos which we think is only fair to submit.

Mr. SOMMERVILLE: They will be attached.

The WITNESS: They are attached. I would like to read this one, if I may.

Mr. SOMMERVILLE: Yes.

The WITNESS: One company says:—

> I am enclosing herewith data requested by the Stevens' Committee on price spreads and mass buying, as outlined in your questionnaire on this subject.
>
> We have the following comments to make in connection with the answer to question No. 1, which is contained on statements marked "A" and " B " attached.
>
> The average hours worked in 1933 were below normal. This is due to the fact that we early adopted a policy of spreading the work over a greater number of employees in order to avoid the necessity of making substantial lay-offs of workmen. This was accomplished by changing from three shifts of eight hours each to four shifts of six hours each.
>
> While your questionnaire does not request any figures for 1934, you will note that at the bottom of statements " A " and " B " we have entered the corresponding figures for the pay periods ending March 22nd and 29th respectively. This shows a material increase, not only in the number of employees, but in the number of hours worked with approximately 23 per cent increase in the average weekly earnings as compared with 1933.
>
> In making this return, we have included all those employed in the manufacture of tires and tubes who are paid a daily, hourly or piece work basis, including all service departments such as engineering, stores, janitors, warehousing and shipping.
>
> It is noted that your questionnaire does not make it obligatory for the various companies in the industry to report their average hourly rates of pay and average number of hours worked per week. Our opinion is that unless you also secure this information in addition to that asked for in question No. 1, your report to the government will give the committee neither an adequate nor comprehensive picture of the wage level in the industry. It is quite possible to have a low average rate per hour with high weekly earnings or vice versa. In other words, the employees' earnings are not measured entirely by the average rate per hour but to a large extent depend on the number of hours worked."

By Mr. Factor:

Q. Those schedules are merely for the tires?—A. I have those for the footwear.

Q. But those you are now producing have relation to tires?—A. Yes, those are tires only.

(Statements showing figures of pay, number of employees, etc., filed, marked Exhibit No. 193).

By Mr. Young:

Q. Apparently those factories run day and night, do they?—A. In some cases they do. I think it is found economical to keep heat on, if possible. Those are filed by members. That is for all tires. Also I desire to file the points of distribution.

The CHAIRMAN: Let us get them one at a time.

(Statement of the points of distribution filed, marked Exhibit No. 194).

The WITNESS: Then, the tire bonus scale.

By Mr. Sommerville:

Q. That is, the scale upon which bonuses are granted on the sale of tires? —A. Yes.

By the Chairman:

Q. That is what you have already described?—A. Yes.

(Tire bonus scale filed, marked Exhibit No. 195).

The WITNESS: The imports and exports, and volume of domestic production in the past five years are shown on that sheet.

(Statement of imports and exports, and volume of domestic production filed, marked Exhibit No. 196).

The WITNESS: Then, this shows the total twelve months' sale of tires, size by size. I think it was asked for. Some tires are very popular and sold largely, and some are not sold.

(Statement showing twelve months' sale of tires, filed, marked Exhibit No. 197).

The WITNESS: Here is a record which has been filed for the information of the association itself, and the association members, over a period of fourteen years, starting in 1920 and concluding in 1933, giving the sales of tires, domestic, export and total; the average number of employees in each year; the pay to the employees in each year, fixed and liquid assets, the duty or tax paid; relative holdings and transportation charges. That covers a fourteen year history.

By Mr. Sommerville:

Q. That is information which was available in your records, that you had for your own members?—A. Yes.

(Statement covering fourteen years, 1920-33, filed, marked Exhibit No. 198).

Mr. SOMMERVILLE: That is very valuable.

Mr. FACTOR: Mr. Chairman, do you expect every member of this committee to peruse and study those schedules?

The WITNESS: We were asked for them, so we have given them.

On behalf of the rubber footwear manufacturers' association, I have been asked to read this brief:—

We welcome the opportunity of appearing before your committee for the following reasons:—

1. To assist your committee in any way possible with any information or to receive advice and suggestions, that will be helpful to this industry.

2. To bring to your attention the problems of the manufacturers in the production, distribution and sale of rubber footwear.

3. To place before your committee facts in connection with various statements that have been made to you by others from time to time.

There has been a decided change in the last few years in the merchandising of rubber footwear, due to the introduction of a great many styles and types of footwear. The demand for these has been created to some extent by the change in climatic conditions and transportation methods. These changes have lessened the demand for rubber footwear. Statistics show the total sales of the industry are approximately 65 per cent of the figures of a few years ago.

When the volume of business was considerably greater, and not as much attention paid to styles, competition among the manufacturers was very keen; and as a result some firms were forced into bankruptcy or liquidation, and later taken over by some of the other manufacturers.

The capacity of the plants continuing operations was greater than necessary for the country's requirements, allowing for a considerable volume produced for export. However, new manufacturers came into the field, and also some leather shoe manufacturers commenced the production of lines competitive with those of the rubber footwear manufacturers. The export demand was curtailed owing largely to tariff changes and unfavourable exchange. These factors brought about a keener competition for the reduced consumption in Canada, and resulted at times in merchandise being sold below cost.

The rapid change in styles brought with it a new problem—that of obsolescence—when manufacturers, in order to dispose of obsolete lines sold same at less than cost. This in turn forced down the price level of new lines, creating an additional form of competition.

The creation of styles brought with it another problem, that of production costs, it being necessary to obtain volume for each style produced, if the cost was to be comparative with similar lines or other manufacturers' prices.

Naturally the larger customers could more readily place orders for quantities and therefore, with production costs and obsolescence in mind, they obtained more favourable prices, again intensifying the competition. This resulted in such buyers having an advantage over the smaller buyer, and steadily increased the large buyers' purchases.

The manufacturers realized the seriousness of this situation, and for that reason endeavoured at different times to bring about an equitable plan of merchandising, which would aid them in continuing in business. Their efforts in this direction met with very little success, as new problems were rapidly developing, which more than ever indicated the necessity for an organization that would operate efficiently and stabilize conditions within the industry.

Following several meetings, the Canadian Rubber Footwear Manufacturers Association was formed in January, 1932, and has continued in operation since that date.

The efforts of this association were immediately directed to the following: Standardization of styles; elimination of excess lines; withdrawal of numerous branch warehouse stocks; stabilization of prices; discount differential to apply to various classes of purchasers.

A survey of the industry clearly indicated the absolute need of such a program, if the manufacturers expected to avoid bankruptcy. New lines were being continually added, lessening the production of lines they replaced. Several closely resembled others with minor changes. Additional colours were added to different ranges and a buyer wishing to purchase a fair quantity could practically buy made-to-order, and immediately introduce a new style. Manufacturers had established branch warehouse stocks at various points, resulting in five or six stocks being carried at a point where the total distribution would hardly warrant one stock. The manufacturers realized these conditions could be corrected only over a period of time, and considerable progress has been made in this direction.

The industry was suddenly confronted with a new problem, that of importations. Due to the Imperial Conference agreements, it is possible for goods manufactured in British possessions to enter Canada at considerably less than production costs in Canada, owing to the very low wage scales prevailing. Figures compiled from customs records show that in 1933 over 1,000,000 pairs of rubber and canvas shoes were imported into Canada. The quantity of imports

will no doubt increase unless some change in the existing conditions is brought about. For some months we have discussed this matter with various officials and departments of the Dominion government.

The import agencies solicit business from only larger customers in order to escape selling and distribution costs, which again widens the spread between the large and small buyer, and therefore to-day stands in the way of Canadian manufacturers further correcting this condition, owing to their inability to compete with these very low laid down prices.

By Mr. Sommerville:

Q. Before you go on, may I ask if those figures of the 1933 imports are from the empire?—A. No, from the world.

By Mr. Young:

Q. From the world. You spoke of over a million pair?—A. Over a million pair.

Q. Have you got the value?—A. I think the value is given in that statement, is it not?

Mr. YOUNG: I have the values here for 1933, rubber footwear $81,789 worth and rubber soled footwear $53,549 worth.

Mr. SOMMERVILLE: Somebody will be in a position to give us that information in detail.

WITNESS: I have it myself.

Mr. YOUNG: These are the fiscal years.

WITNESS: Ours are the calendar year according to the book Mr. Stevens is looking at.

The CHAIRMAN: In 1933, according to this statement, boots and shoes of rubber 674,143 pairs. Then there is another class where there is just canvas and rubber which is shown elsewhere.

WITNESS: Here is a statement taken from that. The total footwear—that is our turf and tennis—1,008,000 pairs, $316,979. Those are the government figures.

Mr. KENNEDY (*Winnipeg*): Where do they come from?

WITNESS: Japan, Czecheslovakia and Singapore. Those are the principal sources.

Mr. KENNEDY (*Winnipeg*): Largely from those sources.

The CHAIRMAN: Straits Settlements 566,000. Czechoslovakia 32,000, Japan 2,000 of the full rubber; and there is the other class besides.

By Mr. Young:

Q. That is for 1933?—A. That is for the calendar year 1933.

Q. I think it was for the fiscal year 1934?—A. Would that be 1933-34?

Q. Fiscal year 1934; ending March 31st, 1934, rubber footwear $281,365 and for rubber soled footwear $79,390?—A. Those figures are quite comparable.

By Mr. Kennedy (Winnipeg):

Q. Will you permit me a question. You have referred to the fact that there is a tremendous importation from the Straits Settlements, Czechoslovakia and Japan. What is the effect of that upon the rubber industry here in Canada?—A. They lose that business, and their prices are set.

Q. I realize perfectly that they lose that business if they get in here and are sold; but I am referring to that sort of competition and whether it can be reasonably met?—A. I am less familiar with the details of the footwear business than I am with the tires. Another witness will take the care of that.

By Mr. Factor:

Q. Do you know how the percentage of imports relates to the total trade? —A. No. It could be easily worked out because the dollar figures are given.

B. Mr. Ilsley:

Q. You have not any division for Empire and non Empire sources?—A. For imports? Yes, they are contained right here.

Mr. KENNEDY (*Winnipeg*): Have you any idea of the fitness of this competition—I mean the actual product itself; does it stand up?

WITNESS: Like everything, there are different qualities. I have heard just casually, again speaking without authority, that they have poor stuff and good stuff.

Mr. ILSLEY: Certainly it is cheap stuff.

WITNESS: Yes. May I continue.

Mr. FACTOR: I notice in this statement that domestic sale of footwear amounted to $11,202,751 in 1933 and the importation amounted to roughly $360,-000. That is an infinitesimal part of your trade.

The CHAIRMAN: Take the number of pairs and you will find the imports cost about 25 cents a pair.

WITNESS: I think the cheap imports have a tendency to set the domestic prices in a rather disastrous way, but that will be dealt with by other witnesses.

By Mr. Kennedy (Peace River):

Q. You mean that prices are lower because of these imports?—A. Yes. Various statements and comparisons have been made by persons appearing before you in connection with the manufacture and sale of rubber footwear, which we will now endeavour to answer: in the first place, numerous comparisons were submitted as representing large buyer's selling prices, against small buyers' costs. It is quite possible that the comparison is on importations or, again, it may be a question of obsoletes or seconds, so that without further details or samples of the shoes in question, this cannot be determined. It was stated at one of the hearings that a special discount of 12 per cent was given to large buyers who sold only about 20 per cent of the total sales in Canada. We have already, in accordance with your request, prepared considerable statistical information, including sales to all classified lists. This information is in your possession, and clearly indicates that this statement is not according to fact. A statement was also made to the effect that one party might have bought two or three carloads, but was told that his money was no good. We can hardly credit this information, as any buyer who would purchase this quantity outright and take delivery to his own place of business, without requesting the manufacturer to assume credit responsibility for numerous other accounts, or to have the manufacturer arrange packages marked for reshipment, would have no difficulty in placing such an order with any of the manufacturers, provided his financial responsibility warranted the extension of credit for such a sum, and provided he tendered a definite order covering such a transaction. Undoubtedly the discount applicable to such a volume would be allowed.

Mr. ILSLEY: The witness meant he could not get the same price as somebody else got.

Mr. SOMMERVILLE: For instance, you have in your "A" list "discounts to listed account". "A" list gets 12 per cent. "B" list gets 10 per cent. "C" list gets 8 per cent. "D" list gets 6 per cent. Now, "A" list used to get 14 per cent, and at the time this 14 per cent was in operation, I think last year, this particular group tried to buy and were buying several hundred thousand dollars worth of footwear, paying for it without there being any risk, and they

were cut off. They were getting a 10 per cent discount although they were buying a great deal more than many of the firms that were in the "A" list. They were cut off and reduced to the lowest discounts, namely, 6 per cent, and told that their money was no good in getting them the increased discount.

WITNESS: The statement placed in my hands and which I am reading appears to contradict that, Mr. Sommerville.

Mr. ILSLEY: Not what you have read.

WITNESS: I think so. I may be wrong.

The CHAIRMAN: Let us hear the rest of it, because that is really one of the main points in this inquiry.

WITNESS: We can hardly credit this information, as any buyer who would purchase this quantity outright and take delivery to his place of business, without requesting the manufacturer to assume credit responsibility for numerous other accounts, or to have the manufacturer arrange packages marked for reshipment would have no difficulty in placing such an order with any of the manufacturers—and on similar terms for quantities.

Mr. ILSLEY: It does not say that.

The CHAIRMAN: You say "any buyer". Now, it happened, I believe, in the instance before us that there were a number of buyers grouped together.

WITNESS: You will really have to get that—

Mr. SOMMERVILLE: Yes, we will get that.

WITNESS: At different times manufacturers have been approached by so-called co-operative groups, requesting that they be allowed the maximum quantity discounts on their combined purchases. The argument is advanced that the saving to the manufacturers in reduced overhead would warrant this action. In the first place, however, the financial responsibility of the co-operative company which acts as a buyer for such groups, is usually inadequate and does not warrant the extension of credit required.

Mr. FACTOR: In this case the co-operative group were willing to pay cash if they could get in the "A" class, according to the evidence given. There is no financial responsibility in that .

WITNESS: They said they were. I read the evidence, and I do not think they put up a certified cheque.

Mr. SOMMERVILLE: It was the York Trading and Guarantee account, and I do not suppose any one of the dealers would hesitate about the York Trading financial standing.

WITNESS: Experience has shown that it would still be necessary for the manufacturer to call on each individual merchant in the group to show new lines, and obtain his order by assisting him in sorting his stuff, etc. Separate shipments would have to be made to each unit with duplicate invoicing, a copy being sent to the co-operative head office, so that in the end there is no actual saving to the manufacturer. One of the most important objections to this plan is that it would only result in the formation of more co-operative groups, to the detriment of the individual retailer who is in competition with the members of such groups. We would respectfully point out that co-operative buyers object to the extent to which volume is recognized for large individual buyers, while they still insist on more discount recognition for their own co-operative volume purchases. The industry has heard no concern expressed on the part of the co-operative buyers for the small individual merchants who do not join co-operative through choice or necessity. In conclusion, we wish to state that we believe the co-operative efforts of the rubber footwear manufacturers have resulted in improved and more stabilized conditions for the industry. The above is respectfully submitted on behalf of the Rubber Footwear Manufacturers of Canada.

Now, as in the case of the tires here are the weekly wage figures for each of the eight companies.

The CHAIRMAN: You say "tires"; you mean footwear?

WITNESS: I gave them for tires. As in the case of tires I am putting this in for footwear.

Mr. FACTOR: For all the manufacturers in your association?

WITNESS: Yes, there are eight companies. The figures—well, it is a figure for each factory. In one case one has two factories, and there is a report for each factory.

By Mr. Kennedy (Winnipeg):

Q. Have we had the names of the companies to which you referred as being in your association?—A. The names of the footwear companies?

Q. Have we had the names of companies in the association?—A. Yes.

Q. Have they been read into the record?—A. Yes.

By Mr. Sommerville:

Q. Give us the names of the footwear manufacturers?—A. The Dominion Rubber Company—I am not sure of the exact title—Gutta Percha Rubber Limited, the Kaufman Rubber Company, The Northern Rubber Company, Canadian Goderich Rubber Company, The Woodstock Rubber Company, and the Acton Rubber Company.

Q. The Miner Rubber Company; you did not read that?—A. It is on the list. Now, that is all I have been asked to submit, sir.

Mr. KENNEDY (*Winnipeg*): Those are the footwear companies in your association?

WITNESS: Yes.

Mr. KENNEDY (*Winnipeg*): Now, have you the names of any other companies in your association?

Mr. SOMMERVILLE: The tire companies have been read out in the tire section.

WITNESS: They are also listed in the file.

The CHAIRMAN: Here is this evidence of Mr. MacKay that I might read to you. It is to be found on page 442 of the evidence:—

> A. Yes, as contained in classification A or B; I might have bought three or four carloads of rubbers but they told me my money was no good, and they followed it up by saying "we cannot do what you are asking us to do, we are in a certain classification and what you are asking us to do is not in accordance with the rubber association business and we might find ourselves outside the classification."

And then Mr. Factor says:

> The Rubber Footwear situation, Mr. Chairman, does seem to warrant a special investigation.

And the witness goes on to say:

> They said if they did what I was asking them to do they would find themselves with their heads chopped off.

Then Mr. Young asks:

> Q. Who would cut their heads off?—A. The Rubber Association.

Then I asked:

> Q. Let us get this clear. Your point, Mr. Mackay, is that although you were able to secure a volume equal to, say, class A—?—A. Well, it might not be class A; it might be class B.

Q. Well, class B, you were denied the similar discounts to which class B was entitled?—A. Yes. I was told my money was no good; they refused to take my money.

By Mr. Ilsley:

Q. What you have just read would indicate that they do not want to deal with these co-operatives if they can help it. There is the answer?—A. I am referring you to some one who really knows more about it.

Q. That was in the statement contained in the tire brief?—A. My understanding was that it was asked by the committee, did you not.

Q. If some one, is Mr. Sargeant or Mr. Carlisle here?

By Mr. Sommerville:

Q. Well, you mentioned to me that Mr. Sargeant or Mr. Carlisle would deal with that end of it, and some one else with footwear. Possibly we had better have Mr. Sargeant.

By Mr. Kennedy (Winnipeg):

Q. Did these co-operative companies purchase for cash or credit?—A. Really I could not say, I never sold footwear.

Q. I had in mind that co-operatives in the west by their constitution are not allowed to buy on credit?

By Mr. Sommerville:

Q. Which do you prefer to come first?—A. Mr. Carlisle represents the Rubber Association, and he talks for the people selling. I can give you very little information because I have no knowledge of the present range of tires.

Mr. SOMMERVILLE: We will call Mr. Sargeant then.

Mr. E. S. SARGEANT, called and sworn.

By Mr. Sommerville:

Q. Mr. Sargeant, what company are you connected with?—A. I am vice-president and general manager of the Canadian Goodrich Company Limited.

Q. And your factory is located?—A. Kitchener, Ontario.

Q. And your company is a member of the Rubber Association of which Mr. Hannay is Secretary?—A. That is right.

Q. And you manufacture both tires and rubber footwear?—A. Yes, sir.

Q. In the plant at Kitchener?—A. That is correct.

Q. In connection with the tire business, Mr. Sargeant, Mr. Hannay has read a report about which some particulars are desired. But before questions are asked, are there any representations you desire to make?—A. The only representations I desire to make is to say that we tried to reflect to the committee the facts of the case.

Q. The exact situation with respect to tires?—A. That is correct.

Q. Now, Mr. Sargeant, with respect to the list of ten cases that are referred to on page 2 of the Association's statement showing the private brand tire and the discount from list price; will you explain to the committee just what the private brand is, so that we will have it on record, as against the standard brand?—A. It is generally known that a private brand tire is a tire branded with the name of the customer who sells it.

Q. Yes?—A. On brands, what we term standard brands, they are tires bearing our own company brand.

Q. Yes, all the standard brands bear your own name?—A. That is correct.

Q. And the private brands do not carry your name?—A. That is correct.

Q. What objection would there be to your being required to have your own name as the manufacturer upon the private brand tire?—A. I do not know that that has ever come up for consideration.

Q. But what objection could there be to it?—A. Well, it is usually the practice with a private brand distributor, I would say that it is rather a common practice, to elect to distribute merchandise under a different name.

Q. Supposing the private brand firm's name was on the tire, what objection could there be to adding your own as manufacturer?—A. I do not know of any objection.

Q. What effect would that have upon your distributors from coast to coast? —A. I could not answer your question, sir; I mean, I do not know. I have never seen it tried.

Q. Well, if your private brands—let me get this, your standard brands you sell through the regular distribution system?—A. That is correct.

Q. You sell to jobbers and to dealers?—A. Branches or distributors.

Q. And on these there is a definite set basis of discount?—A. That is correct.

Q. And the discount to dealers is 20 per cent?—A. On tires, yes.

Q. And if they sell a certain volume they get a bonus in addition to that? —A. That is correct.

Q. But the majority of them do not get a bonus, because they do not sell the volume?—A. I would not say that, when you have an average bonus of 5 per cent they are all earning more or less.

By Mr. Factor:

Q. Is that the average for 1933?—A. That is correct.

By Mr. Sommerville:

Q. What was the average for 1933?—A. About 5 per cent.

Q. But the statement says that approximately 40 per cent of the tire dealers earned a bonus. Then 60 per cent did not earn a bonus, according to the statement that was read by Mr. Hannay?—A. I would say that is about right.

Q. But only the 40 per cent did earn a bonus, an average bonus of 5 per cent?—A. No, the bonus I would say is weighed against the total volume.

Q. Are you sure of that?—A. I am not positive, no; that was my understanding.

Q. That would hardly be so?—A. It might be, rather easily so.

Q. That is the average for the total volume—when your largest bonus is 10 per cent?—A. That is correct.

Q. For those of over $30,000, and the bonus is paid to 40 per cent of tire dealers, and you think the average would run that?—A. Yes, I would think so, that would be our experience, Mr. Sommerville, speaking for our own company. My information is confirmed, Mr. Sommerville.

By Mr. Young:

Q. Supposing you take the full 10 per cent?—A. I can probably explain that to you, the larger volumes are located in the marketing centres, and they earn a maximum bonus.

Q. Yes. Supposing the entire 40 per cent earned 10 per cent bonus, that would still leave 60 per cent that didn't earn any?

The CHAIRMAN: No, no. 40 per cent; not the number of dealers.

The WITNESS: Yes, it is on the volume.

The CHAIRMAN: Mr. Hannay has confirmed it so I imagine we can accept that.

By Mr. Sommerville:

Q. 5 per cent on the volume then?—A. That is correct; as a matter of fact, our own is a little higher than that.

Q. Then your standard tires are set at certain prices, which are maintained prices—at least you seek to maintain them, let us put it that way?—A. That is correct.

Q. And you require that they shall be sold to the public at certain prices?—A. No sir, we do not.

Q. You do not do that?—A. No, sir. We would like to be able to have some way of influencing prices but we do not.

Q. You do not fix the price at which the tire is to be sold to the public?—A. We have no control over that.

Q. It is entirely a price to the dealer?—A. That is correct.

Q. He then sells at whatever price he can get?—A. That is correct.

Q. Have you any maximum?—A. No sir, none whatsoever.

Q. Now then, private brands are usually sold at lower prices than your standard brands?—A. I believe that is the practice.

Q. That is the experience?—A. That is the statement made here.

Q. And if your name was on the private brand, would that not interfere very largely with your distribution, would not your distributors object to your putting out a brand for a private individual with your name on it, as everywhere the buyers are loading up with your standard cars?—A. I do not know that they would necessarily.

Q. Have you had any complaints of any kind?—A. I have never had experience, Mr. Sommerville.

Q. Do you make any private brand tires?—A. Not under the survey of last year.

Q. You did not last year?—A. No, sir.

Q. But you are making one this year?—A. That is correct.

Q. And you are making them on a cost plus basis?—A. Yes, sir.

Q. And on that basis the customer supplies the ingredients, does he?—A. Not with us.

Q. Not with you, what does he supply?—A. He supplies the moulds.

Q. The moulds only?—A. The moulds, the maintenance cost, and certain other charges.

Q. He supplies the moulds?—A. And any maintenance cost on the moulds.

Q. And he pays the maintenance cost?—A. That is correct.

Q. Anything else?—A. No, nothing in particular.

Q. Now, as to costs, you say they are on the basis of your actual costs?—A. Yes, sir.

Q. Supposing, for instance, you had bought rubber in advance at a low price, would that be taken on the basis of the cost of rubber to-day, or at the low price at which you bought it?—A. They would pay for it on the same cost that everybody would be privileged to buy, at the same cost.

Q. On the other hand, supposing you had bought cotton, we will say, in advance, and the price to-day was lower than the price which your contract provided; would your cost-plus arrangement means that you would have to allow them the cost of cotton at present day prices?—A. No, sir.

By Mr. Kennedy (Winnipeg):

Q. Would not the measure of cost be the replacement cost?—A. No, it is the actual cost.

By Mr. Sommerville:

Q. My reason for asking is that certain information came that the contractor for the cost-plus tire would take that which was the more favourable?—A. That is not correct.

Q. As far as your contracts are concerned?—A. Yes.

Q. So you are taking the actual cost at the present time?—A. Absolutely, that is correct.

Q. And add to that the plus figure?—A. That is correct.

Q. Now, does that give them the advantage of more or less than the discounts that are shown here?—A. I would say slightly more.

Q. So that the buyers of the private mark tire have better than a 44 per cent discount?—A. Yes.

By Mr. Factor:

Q. Are they of the same quality?—A. The specifications are approximately the same, not quite.

Q. On the standard brand and the private?—A. That is correct.

By Mr. Senn:

Q. Do you exercise any supervision over the advertising done for these special brands?—A. None whatsoever.

Q. They are allowed to do what they like absolutely on that situation?—A. Yes.

Q. Through the mail order houses and catalogues?—A. I cannot answer that question.

By Mr. Young:

Q. Does the same guarantee go with the private brand as with yours?—A. Yes.

Q. Is it the same quality of tire?—A. Yes.

By Mr. Senn:

Q. Is it your guarantee, or the guarantee of the man who buys it?—A. It is theirs.

By Mr. Sommerville:

Q. Do they require you to give a guarantee?—A. Only as to workmanship and material, which is our standard.

Q. Your standard guarantee?—A. Well, I mean that has always been a part of our standard guarantee.

Q. What I mean is when you sell a special private brand, do you give any guarantee to the company that buys it?—A. Other than workmanship and material.

Q. You give more of a guarantee to your dealers, do you?—A. Yes, we do.

Q. Then, do the company that have a private brand not require you to live up to the same kind of a guarantee that you give to your own dealer?—A. No, sir.

Q. And they assume all risks of the guarantee which they give?—A. That is correct.

Q. And is the guarantee which they give as broad as the guarantee which your dealers give on your standard tires?—A. It is the same.

By Mr. Factor:

Q. What is there beyond workmanship and materials?—A. Road hazard.

Q. That is, so many thousand miles per tire?—A. No, the road hazard guarantee is not.

By Mr. Kennedy (Peace River):

Q. The road hazard guarantee gives, for one year?—A. That is correct.

By the Chairman:

Q. If you make a tire for a special brand, do you take any objection to the distributor advertising those as if they were of a higher quality?—A. I am not confronted with that problem.

Q. You have never been confronted with it?—A. No.

By Mr. Young:

Q. The impression prevails throughout the country that these special brand tires are not as good as the others, you say that is not the case?—A. I cannot speak for other manufacturers.

By Mr. Factor.

Q. They do sell these private brand tires cheaper to the individual producer?—A. That is a matter of distribution. I mean, it is shown here in the facts we have presented.

Q. That is how they can succeed in selling them cheaper, because of the low cost of distribution?—A. That is correct.

Q. As a manufacturer, you are not complaining of the system of private brands?—A. We are not complaining about the system, no sir. The only difficulty confronting us is the vicious price cutting that goes on in the market, not only between these people but between our own people.

By Mr. Senn:

Q. Have you any complaints from your own distributors about this?—A. You can hear them from anybody.

Q. But, more so, I mean, from your own distributors?—A. Well, there are some of them; but then you can hear them from anybody. There is no phase of prevailing upon anybody to collect a given price for a given product; therefore the price cutting—if that is what you are getting at—with respect to any one of these types of outlet, may cure itself where the market is very much disturbed; that is true, that our own dealers are competing with each other as strong as competing with any other type of tire.

By Mr. Sommerville:

Q. On the price cutting the slashing does not take place to anything like the same extent between the standard tires as it takes place with private brands?—A. I am sorry to say it does.

Q. In large areas?—A. Yes, sir.

Q. Because, we just had presented to us a brief from the Summerside Board of Trade pointing out the various serious consequences to the Island, to all the distributors in the Island of Prince Edward, by reason of the sale of these catalogue tires in which—at page 485—the Board of Trade gives several examples of the effect of the spring catalogue of 1934, and refer to the dealer's fixed retail price of $10.88 as against the price of $7.90, or a difference of $2.98 on the first grade, $2.68 on the second grade, and $2.28 on the third grade; and pointing out that on this basis the dealers could not be expected to sell to the consumer, and that business will all go to the Departmental and Mail Order houses?—A. That is the case that we have illustrated in this résumé we have made, because it is a direct example of a condition within the industry, inasmuch as this particular tire as I recall it represented 12½ per cent of the sales there. You must remember this, that the dealer provides a service for the customer that the mail order house does not.

Q. The catalogue is not there when your car breaks down?—A. It is not there, neither does it take your tire off and replace it.

Q. No?—A. The dealer is entitled to charge more for service of that character than you would be expecting from a mail order house.

By Mr. Factor.

Q. It works the other way too, if the mail order house is not giving the service, they can sell it at a reduced price?—A. That is the system. You have three types of distribution in the country. While we are here, let us be very frank and candid with ourselves. We have our costly system of nation-wide distribution of tires, through branches and distributors; then we have from distributors to dealers; and then you have mail order house operation. When you save one given step in distribution on any product, I do not care whether it is on tires or any other product, if the economics of the system provide a saving in the way of relieving you of costs, and passes that saving on to the consumer—that is what we are talking about, all the people generally.

By Mr. Sommerville:

Q. What is the effect on your industry, has it not rather thrown the industry into chaos?—A. It has made it rather—no, I do not think so, Mr. Sommerville. I think these people rather take an extremely fair position. I think the responsibility is equal, if you ask me.

By the Chairman:

Q. You would say then that your business in distributing through the special brands at these low prices was preferable to you?—A. Yes. However, Mr. Stevens, you are asking me some questions which maybe I should not talk about, because I do not know all these discounts, except that they are representative. I am simply talking in generalities with respect to the principle.

By Mr. Kennedy (Winnipeg):

Q. As to these discounts that have been mentioned, is there any trade reason why it would not be desirable to disclose them? I am not suggesting you do disclose them, but if there is a trade reason that you should not disclose them, I would suggest that you file them with the committee??—A. They are here.

Mr. SOMMERVILLE: They are here. They are all disclosed, Mr. Kennedy.

Mr. KENNEDY (*Winnipeg*): All right.

By Mr. Sommerville:

Q. Is it not a fact that the extent of the discount is largely measured by the buying power of the customer?—A. I would say not.

Q. You would say not?—A. I would say that has some influence. The bonus or volume phase of merchandising had been in practice for a good many years. I mean, we adopt it in our own business; but generally speaking, I would say that the saving in costs the manufacturer is relieved of by virtue of not paying such items as freight and selling costs and so forth, are the sum total that is reflected in these discounts.

Q. This is the first year you have taken this contract?—A. Yes, that is correct.

Q. And you have taken it in competition with some other dealers or companies?—A. I presume so.

By the Chairman:

Q. Would you suggest that it would be a good thing to disband all the dealers in the country and distribute entirely through mail order houses?—A. Mr. Stevens, you are asking me a question I wish I could answer.

Q. Well, you are heading that way?—A. I am just as much confused in regard to that question, I think, as we all are. We have developed, over a

period of twenty-five years, mass production, I don't care whether it be on the farm, whether it be in the factory, or whether it be in our distribution field. Obviously it must have been sound, or it would not have grown.

Q. Not necessarily?—A. It must have been, or it would not have grown. We all supported it. Now that we have all these arteries and avenues of distribution, I think they are all entitled to a fair position in the market .

Q. But they cannot all have it. How many distributing agencies are there, outside of the mail order houses? 40,000 was it?

Mr. FACTOR: 13,000 dealers.

By Mr. Sommerville:

Q. What would you say, Mr. Sargeant, as to whether or not it would be a good thing to have all the dealers in the province of Prince Edward Island put out of business by that system?—A. That is a matter of opinion. I would rather not express myself on a matter of opinion. I think it has got to be based on cold blooded facts, Mr. Sommerville.

By Mr. Factor:

Q. May I put it that way to you, Mr. Sargeant? Suppose those dealers are put out of business and the manufacturer and the consumer get the benefit of their elimination? Is that the suggestion?—A. Well, Mr. Factor, is that correct? Your theory goes back to the theory of how the dollar can spread itself in greatest purchasing power.

Q. Quite?—A. I mean, that is the principle that is under discussion here. If distributing in large quantities of goods gives the purchaser better purchasing power under the old theory of economics, then as an economist, we will say that the theory might be sound. I wish I could answer the question.

By Mr. Sommerville:

Q. As a practical manufacturer, dealing with the condition such as we have in Canada—widespread, scattered population—what do you say as to whether or not this system of selling by that basis is not destructive to the whole distribution system of your tires?—A. I am not going to undertake to weigh that problem, Mr. Sommerville. That is too big a problem for me to answer.

Q. You are having a very important part in it now?—A. That is correct.

By Mr. Factor:

Q. How is this committee going to answer it, if you don't give us the benefit of your advice?—A. If you want my opinion, and it may be a very biased opinion from a limited field,—but you are taking in a lot of territory. When we talk about tires, tires is only one item in itself.

By Mr. Sommerville:

Q. We are talking about tires and tires only, at the present time?—A. Yes. I think these systems are all sound, and have their place.

By Mr. Young:

Q. Do you think there is any likelihood of the individual dealer or distributor being put out of business by the chain stores or mail order houses? Is it not a fact that every garage would have a demand for tires, no matter what the mail order houses did?—A. Yes, but I think the limit of this type of distribution reaches the maximum some place.

Q. There is no danger of all these other individuals being put out of business?—A. I would not think so.

Mr. SOMMERVILLE: There is just the danger of their purchasing power being very greatly restricted.

Mr. KENNEDY (*Winnipeg*): Whose purchasing power?

Mr. SOMMERVILLE: The purchasing power of the 13,000 dealers who have their investments from coast to coast.

The WITNESS: Their purchasing power?

By Mr. Sommerville:

Q. Yes, their earnings, if their business is cut by this?—A. I don't know. I think that is a part of the individual.

By the Chairman:

Q. Will you tell me, Mr. Sargeant, just on what basis you would figure a 44 per cent discount to a special brand distributor as against a 20 per cent discount to a regular standard dealer?—A. I will merely reflect to you a condition that I know something about; that is that the distribution cost that you can save by supplying tires to a special brand distributor can well be absorbed or saved to you.

Q. Can you show in an analysis that that is warranted?—A. Well, I can in the industry.

Q. But for yourself?—A. Yes.

Q. Can you supply us with that?—A. I would be very glad to submit it.

Q. If you do, it can be confidential. I think that the committee would agree that we keep that just confidentially?—A. All right.

Mr. FACTOR: You have got to take into account the bonuses too, Mr. Chairman.

The WITNESS: I would be very glad to submit that, Mr. Stevens, as representing the Goodrich Company. I can't speak for the industry.

The CHAIRMAN: No, I am speaking of what you know.

The WITNESS: That is correct.

By Mr. Sommerville:

Q. Was there anything further, Mr. Sargeant, in connection with this brief that you wanted to present?—A. Nothing, unless some of you gentlemen wanted to ask me questions.

By Mr. Edwards:

Q. Just before you leave that, you were speaking about these private brand tires. Does not the purchaser demand that his name only be put on that tire? He will contract with you this year, and contract with the Dominion another year. It is his brand?—A. Yes.

Q. Does he not own the brand?—A. Yes, he does.

Q. He furnishes the mould?—A. That is correct.

Q. And all the rest. I think that answers that pretty well?—A. It would be in our case.

By Mr. Sommerville:

Q. Are you an officer in the rubber association?—A. I am vice-president.

Mr. FACTOR: And general manager.

Mr. SOMMERVILLE: General manager of the Goodrich Company.

By Mr. Factor:

Q. Have you anything to say about the rubber footwear situation?—A. Well, I didn't undertake to study rubber footwear, and I would prefer to leave that. I will be glad to answer your questions later on.

Mr. SOMMERVILLE: All right, thank you, Mr. Sargeant. We will now call on Mr. Carlisle.

The witness retired.

C. H. CARLISLE, called and sworn.

By Mr. Sommerville:

Q. Mr. Carlisle, you are the president of the Goodyear Rubber Company of Canada?—A. I am.

Q. And have been for a number of years?—A. Yes.

Q. For a good many years?—A. Yes.

Q. Perhaps you will be good enough to give the committee the benefit of your experience, and of the conditions that exist in the tire industry to-day?—A. Well, when it comes to matters of detailed selling, I will not be so well posted. In speaking of the quantity of private brand tires sold, the statement submitted to you gives the number of tires supplied by members of the tire group in the association. Two of the companies referred to external to the association, I believe, make tires, special brand tires, exclusively; so that fact would increase quite materially, figures showing the number of special brand tires sold. There is a material difference between the prices of tires sold through dealers and tires sold through certain mail order houses. If we were to reduce the list prices of tires sold through the dealer to say 10 per cent above those of the leading mail order houses, it would mean a reduction, I think, of an average in the neighbourhood of 20 or 21 per cent. As to another mail order house, it would mean a very much larger reduction in the list prices to set a 10 per cent differential.

Now, a reduction, as I get it from information in the rubber association, of 21 or 22 per cent, would put every rubber company into red figures, or show every rubber company a material loss.

Q. What would be the effect upon the industry in Canada, generally?—A. Of which?

Q. Of such a reduction?—A. I think, first, it would mean a loss to the rubber company, to the manufacturing company; second, it would reduce the base of selling, which would lower the profit. For instance, if a dealer is making 10 per cent profit, he would make a less dollar profit after the reduction, because the base would be lowered.

By Mr. Ilsley:

Q. Excuse me, but I understood the last witness to say that it paid him just as well to sell those special brand tires as to sell through the ordinary channels of distribution?—A. Mr. Sargeant, and his company, are not selling to the mail order houses.

By Mr. Young:

Q. He said some companies sell exclusively these private brands?—A. Yes.

Q. How do they live?—A. I don't know.

By Mr. Sommerville:

Q. You know some of the history of some of them?—A. One company that is manufacturing special brands, which was organized I could not tell you how many years ago, failed. It was reorganized and then got into financial difficulties. Then there was some more money put in, and I think you will find it in a very serious financial condition to-day, from the information that I have.

By Mr. Young:

Q. How about the other two? There were two or three companies, were there not?—A. There were three. They are very small. One of them is the Hannon Rubber Company. It is a very minor affair, and I think Mr. Hannon is not operating the company at the present time.

Q. It is operating, though?—A. It may be; and I think it has been operating intermittently. It is a company with a very small capital.

Q. You think a small company in Canada can get by on this kind of contract?—A. Well, they have not proven very successful in the past.

Q. But they have not failed?—A. Oh, yes, there have been a number of companies that failed. I don't know from making special brand tires, but a great number of small companies have failed in this country. I believe from seven to perhaps ten have passed out.

By Mr. Factor:

Q. Mr. Carlisle, your company makes private brand tires too?—A. No.

Q. You don't?—A. No. We never have. Now, I will speak of these a little later, these prices, so that you can see about what they are. I will also speak of the quality of the goods. It might be interesting to know that the rubber companies in the association in this last fourteen years have made a net profit on sales of 2.56 per cent, or slightly over 2½ per cent.

By Mr. Young:

Q. How much is that on your investment?—A. Oh, I could not answer that question, because the investments are not always in relation to the amount of capital that is required to operate business.

By Mr. Kennedy (Peace River):

Q. That is all the companies in the association?—A. Yes. Another thing that may be of interest is the trend of prices. I will take that 30 x 3½ tire; that is a cross section. It was a very popular tire in 1920, and at that time it sold for $25.35. At the close of 1933, it sold for $3.96. I would say that the mileage given by that tire, that size tire to-day, is from double to triple the mileage that was given in 1920.

By Mr. Sommerville:

Q. The improvement in the quality of tires has been that great?—A. Yes. At the present time there are a number of conditions in the tire industry that are not profitable. They are not all due to the mail order house or the special brand tire, but a great deal of our trouble is due to unfair prices coming from special brand tires. It is hardly necessary to enumerate all the ills and conditions that are adverse in the industry. I would suggest some remedy by which the industry could be put on an equitable basis where prices would be fair to the consuming public, where adequate and fair returns could be made on invested capital and where fair wages could be paid.

One of the recommendations I would make would be the cancellation of the Combines Act. The principal object, I would take it, of the Combines Act, is the safeguarding of the public against unreasonably high or unfair prices. The public is entitled to such a safeguard. It is also a safeguard to industry, but I think that that safeguard could be brought around in a better shape and in a more constructive way than under the present Combines Act. If you want the maximum of efficiency, you have to have it through organization. That is true of any individual company. All of its different departments have to be coordinated and working in harmony if you are going to get the minimum of cost and the maximum of efficiency. I think the Combines Act does and will, as it stands to-day, prohibit companies from organizing so that they may become highly efficient.

In place of the Combines Act, I would recommend the enactment of legislation giving the Dominion government adequate power to regulate trade and commerce. There are many phases of trade that need regulating, as well as that of regulating high prices. Low prices are as destructive as what high prices are. If you are going to have a well regulated and orderly industry in this country, it means that a company shall earn sufficient money to pay its dividends, to pay adequate wages, to set up reasonable reserves and at the same time be able to give the public a fair price. Industry, if permitted to organize with those objects, I think would accomplish much in the constructive way. Industry, I think, should have the supervision of government where conditions arise in an industry that cannot be settled unanimously by that industry. I am not a believer in public ownership, and I am not a believer in a government operating business or attempting to operate business, but I do believe in the supervision or such things as are vital to the industry of this country, and therefore I heartily recommend legislation of that kind.

By Mr. Young:

Q. You are recommending that the government guarantee profits, are you not?—A. No, I am not.

Q. So there will be an assured dividend, an adequate reserve?—A. No. I say business has to be healthy. For this country to be in a healthy condition, that is the result you want to gain, that is the position you need in an industry. The government should not undertake to guarantee profit or even to run business. The government protects you in your investment in real estate. People cannot trespass on it. They won't allow any nuisances to be built around you, anything to deteriorate your property. But the government gives you practically no protection on your investment when it goes into industry. I think the government owes it to the invested capital of the country, which represents the general people, to give it adequate supervision.

The CHAIRMAN: Well, gentlemen, it is six o'clock, and obviously Mr. Carlisle will have to come back.

Mr. KENNEDY (*Peace River*): He is not going to finish to-night.

The CHAIRMAN: We would ask Mr. Carlisle if he would come again in the morning. Is 10.30 too early?

Some Hon. MEMBERS: No.

The CHAIRMAN: Then we will meet at 10.30; and if Mr. Carlisle will be good enough to come in the morning, we will continue hearing him on this.

Mr. FACTOR: I would like to hear from Mr. Carlisle some practical suggestions to bring into effect his recommendations.

The WITNESS: I will do that.

The committee adjourned at 6 o'clock p.m., to meet on Wednesday, May 23, at 10.30 a.m.

House of Commons, Room 368,

May 23, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 10.30 a.m., the Hon. H. H. Stevens, presiding.

Mr. Norman Sommerville, K.C., and Mr. W. W. Parry, K.C., of Toronto, appeared as Counsel for the Committee.

The Chairman: Order, gentlemen, the minutes of yesterday contain the record of the witnesses heard and certain exhibits filed. I will declare the minutes adopted.

Now, Mr. Carlisle was making a statement last night. Will you come forward, Mr. Carlisle, and continue from where you left off.

Examination of Mr. C. H. Carlisle resumed.

The Witness: Mr. Stevens and gentlemen: My third recommendation is to require all members of an industry to operate in a common organization, but subject to government supervision. My reasons for this: If you get an entire industry into a single organization, you have an opportunity of discussing and studying every phase of that industry, from the position of the weakest company to that of the strongest company. The reason I suggest supervision by the government is in case that this industry could not agree on all points that may be as equitable as it is possible to make them, it would then have an opportunity of referring any of these points of dispute to the government.

By Mr. Kennedy (Winnipeg):

Q. Such regulation, Mr. Carlisle, I presume would also be used for the protection of the public?—A. Absolutely.

By Mr. Young:

Q. Would the members of this industry then have the right to say whether anybody else should enter into that industry or not, or whether a new company should start up?—A. No, they would have no jurisdiction over that. I will deal with that a little bit later. In answering the question by Mr. Kennedy (Winnipeg): My purpose back of any of these recommendations is to get an industry on an equitable and fair basis. Now, to do that, it must be fair to the purchasing public and it must be fair to the different companies engaged in that industry. If the thing is going to be workable at all, you cannot have an advantage to one and a disadvantage to another, and have a condition that is constructive or satisfactory.

By Mr. Factor:

Q. Why do you recommend cancellation of the Combines Act, Mr. Carlisle? —A. For this reason: The Combines Act seems to me to serve one purpose only, and that is the protection of the public against exorbitant prices. Now, the people should have that protection; but the things I complain of in the Combines Act are that it prohibits organization that is economic and constructive. Now,

in the United States they have two laws over there, the Sherman Act and the Clayton Act, to prohibit organization. It did not work well and they are reversing the procedure; and I think that there is strength in economic and constructive work under organization if that work is done honestly and fairly, which you can accomplish by turning over to the government full power of regulation, and you can give to the public the same measure of protection or greater protection than they have under the Combines Act.

By Mr. Sommerville:

Q. You would favour the association of the various companies in an industry for the purpose of eliminating unfair practices?—A. That is right, sir.

By Mr. Young:

Q. Would you have this organization regulate prices?—A. I think they should regulate prices, subject to the approval of the government. I think the government's approval will do this: It will assure the purchasing public that they are getting fair prices, and I do believe in uniform prices fixed on the basis of the different methods of distribution. I will go into that a little bit later.

By Mr. Kennedy (Winnipeg):

Q. Fix their prices and leave it to the different individual companies in the industry to survive by efficiency?—A. That is right.

By Mr. Young:

Q. And on what basis would they fix these prices?—A. I will go into that just now. Now, my fourth recommendation is that there be a standard cost system adopted within the industry. We are discussing the tire industry, so it would apply to that. Each company has its own cost system, it could continue that if it so desired, so that there could be a stabilization of the basis of cost. I think there should be a uniform cost system, and that all companies should compile costs according to that system and submit them to the association, and have these costs audited by a competent auditing company such as Price Waterhouse, or auditors of equal standing.

Q. Would these auditors be competent to judge whether these factories were operating efficiently or not?—A. I will come to that. Now, this cost system I think should undoubtedly eliminate over capitalization. The company that is over-capitalized could not expect a profit sufficiently great to pay dividends on stock that has no intrinsic value; on the other hand, you may have companies that are strong financially and have returns from capital.

By Mr. Sommerville:

Q. That is, invested capital?—A. Invested capital. I think returns from capital should not enter into the cost of production, any more than over capitalization should enter into the cost of production.

Q. When you refer to invested capital, you mean capital invested in outside investments?—A. Yes.

By the Chairman:

Q. Just a moment on that point, Mr. Carlisle. What would you do in regard to the modern practice, to use a slang phrase, of "unloading on the public" by way of bond issue the capital structure? In other words, in recent years the tendency has been to get away from shareholding capital to mortgage bond capital. Would you have interest on the mortgage bonds form part of your operating cost, or be considered after the operating cost has been fixed and the profit on operation has been determined?—A. I would make it after profit has been determined

Q. Whether it is an issue, or a dividend on stock?—A. That is right.

Q. That is, that consideration of the payment of winnings on capital should be out of the profits after the operating surplus had been determined?—A. That is right.

Q. A very sound principle?—A. Now, if I may continue: the procedure of costing along this line; now then, to make it further equitable even under these conditions—there will be some companies whose costs under this system will be high, others will be low. It would not be to the interests of the public to base your costs on the most efficient company, neither would it be fair to the industry to base your costs on the company that is the most inefficient. Therefore, I would recommend that you take these different costs, whatever number that would be, and divide it by the number of companies submitting costs; in that way you would get an average of costs.

By Mr. Young:

Q. Now, in the case where a company discovers some new way of cutting costs, and is able because of that to reduce its costs materially, you would not let them do so?—A. I do not think it is to the interests of the people of this country to do that, because that has a tendency to monopoly.

Q. You do not think it is in the interests of the people to pass on to the people any of the advantages of modern invention, or improvement of method, or cost reduction?—A. Oh yes, that is done; but that is more or less common to an industry.

Q. It is generally done, isn't it, by one member of the industry first and then the others are forced to follow suit or get out?—A. That is the way it has been done, and that is responsible I think for a great deal of our social troubles to-day.

Q. And you want to stop that, do you?—A. I want it equalized to some degree in the industry. If you are going to have an industry that is stable you have to make some provision for matters of that kind.

By Mr. Ilsley:

Q. Does not your scheme foster monopoly rather than the alternative one suggested by Mr. Young. Mr. Young suggests that when a new company comes along and is able to cut the costs, say 50 per cent, and the other companies that cannot go to the wall; you say that is the thing that tends to foster monopoly. Now, I suggest that your plan keeps the whole business of the country in the hands of the old companies?—A. Oh, no.

Q. Does it not?—A. I would say that the old companies are the ones that have the lower cost. When I am arguing this I think I am safe in saying when it comes to tire costs; that our company would have the lowest cost of any tire company in this country; and still I am taking the opposite view to get away from monopoly and to give a fair chance to the industry. Now, that is the position of our company; and I will tell you why I make that statement: First, our costs are written down to a very small amount; I believe our equipment plus installation is written down to about 16 or 17 cents on the dollar, our plants to about 47 cents; we have a cash position of about $7,000,000; we have a reserve of $6,500,000; and we have an earned surplus of close to $8,000,000. Now, the thing that he is advocating, if I follow the suggestion of Mr. Young, would put us in the position of further increasing the amount of business we have in this country.

By Mr. Sommerville:

Q. In other words, by reason of the strong financial position you are in, without any borrowed capital, you would be in a position if you wanted to do so to wipe out the industry?—A. I do not know whether it would wipe them out, it might make it embarrassing for some.

Q. I mean in a general sense, you could wipe out a good many of them?—A. It might be.

Q. And would limit the numbers that would be in the business and make for the possibilities of a monopoly in the hands of a smaller group?—A. But let me proceed with this, these are just suggestions, and I do not want to get into an argument. Having the basic cost put up, that I think is the fairest way I could suggest. Now then, you are selling to the different trades and the price is made to these different outlets for your product. They should be sold at different prices for various reasons. The manufacturing company should get a profit. That should be determined I think by this association with the approval of the government. The one who should receive the lowest cost is the car manufacturer, the reason being that you make your shipments in carload lots, you have practically no credit loss, and there is very little selling expense; another reason why the car manufacturer should have a low price, is that the more cars there are sold in the market the greater are the outlets for tires, and the lower your cost on most any article the more widely and the more readily it receives a market.

By the Chairman:

Q. You are now referring to tires being sold to car manufacturers?—A. I am now referring to the tire manufacturer selling his product. When you sell a car manufacturer, he should get the lowest price owing to the nature of his business. Now, the next outlet will be the jobber, he should be charged a higher price than the car manufacturer; but the jobber has to re-sell these goods, he has to stand the credit loss which applies to all sales, so he is at a considerable expense. Now, your third outlet is the mail order houses—they should be charged a somewhat higher price than the price charged to the jobber, because the mail order house will probably sell at a lower price in regard to the spread, in so much as they do not give a service and they sell for cash. Their expense is largely their catalogue, and I think most of them charge express. Now, the next outlet is the chain store. The chain store becomes competitive with the dealer. Some chain stores do not give a service equal to the dealer, other chain stores do; but those who do not should get a somewhat lower price than the dealer because they do not give a service equal to the dealer. Now, your fifth outlet is the dealer. There is where your national expense comes in selling. There are, it was stated yesterday, about 13,000 dealers in this country. This is a very large country, it has a limited number of cars, and the expense of selling through the dealer is quite great, and you have a maximum of credit loss. Now, to be fair to all these different outlets you ought to have a differential in price that is commensurate to the service that they give and the expense of doing business with them.

Q. Mr. Carlisle, have you ever thought in your business of some principle upon which you would determine the differential that would apply in each of these several divisions?—A. Yes, I have; and it is not so difficult to work out. That ought to be worked out in common with the industry, and it is not difficult to work out.

Q. Yes, but is your method of working it out arbitrary, or is it on a principle that could be invoked and would be applicable to this that and the other industry?—A. One principle is, make no sale below cost.

Q. That is fundamental, I think?—A. The other principle is that your base of cost is equitable to the industry, and excessive or under capitalization is eliminated in computing these costs; then the percentage at which you sell over cost depends entirely on the outlet. Now, here is one of the troubles in the industry, that a person who is reselling a product, if he could buy that product

at an exceptionally low price, whether he deserves the market or not, has it within his power to disturb the reselling of these goods, because he has an advantage on his purchasing over others, and if these margins are narrowed so that there is not too big a spread in the original purchase between one class and another class, you limit the extent of your selling disturbance.

Q. What gives me a good deal of concern is, you take your set-up here, or take your Rubber Footwear Association in which you are strictly interested but it comes under the same category; the manufacturer has an "A" list, a "B" list, a "C" list and a "D" list; as far as I can recall they are on that system; now, what principle directs the manufacturer in determining what the discount shall be for the "A" list, the "B" list and the others?—A. I do not know anything about the shoe industry, but what will determine it in the tire industry as I said before is the service given.

By Mr. Sommerville:

Q. That is, the value of the service as between the different distributors can be reckoned in the percentage?—A. That is right.

By the Chairman:

Q. As a matter of practice that is not done?—A. No, that is one thing I want to correct.

Q. In the matter of practice it is an arbitrary thing?—A. That is right.

Q. One manufacturer may give more than another manufacturer, and he may give a mail order house that has a good order even a greater discount?—A. That is right.

By Mr. Sommerville:

Q. He may take dictation from a big customer and allow extra bonuses, or extra discounts that are not generally allowed to the trade?—A. Yes.

Q. That is one of the abuses which you think should be corrected?—A. I am referring to that a little later.

By Mr. Ilsley:

Q. Would you mind explaining what you mean by the service given. It seems to me you laid down two prices; one was the cost of doing business with the various persons to whom you sell, that is perfectly understandable. I should think you would give the largest discount to the person with whom there is the lowest cost doing business. But what about this other principle, the value of the service given; what do you mean by that?—A. Now, you take a dealer,—we will compare the dealer with the mail order house. The mail order house gives practically no service. If you want a tire you have to write for it, you have to send your money in for it, or else he sends it C.O.D., you have to wait for delivery and if there is any mistake in the shipment, it gives you trouble and you have to go to a depot somewhere else to get that tire. Now, contrast that with the service given by the dealer. When you go to the dealer he has the tire in stock. You get immediate service, he may apply the tire and you know what kind of a tire you are getting. Now, there is the difference in service.

Q. The dealer should have the lower price, or the higher price?—A. You would have to charge the dealer a higher price, because it costs you more money to sell to the dealer.

Q. That is what I am trying to get, I understand that perfectly; but the other principle, if the dealer gives more service there—?—A. He charges more money to the consumer.

Q. Why do you charge him more?—A. Because it costs more to sell.

By the Chairman:

Q. I think what Mr. Carlisle is driving at, Mr. Ilsley, is this: that while on the basis of his costs of selling to a distributor—we will take the two cases, the mail order house as against the dealer—the mail order house might be entitled to a much lower price than the dealer, because it costs the manufacturer less to sell him. But Mr. Carlisle now argues, and I think properly, you ought to take into consideration the service given by the dealer, and therefore you should narrow the discount that the manufacturer gives as between the dealer and the mail order house. And I think Mr. Carlisle wishes, because I had some conversation with him before he came here, to emphasize that this practice of selling to mail order houses at these exceedingly low discounts is not a fair practice.

Mr. Ilsley: I see the argument now.

By Mr. Sommerville:

Q. That is one thing; then is it not further in your mind, Mr. Carlisle, that the difference between a $200,000 order and a $300,000 order may not be an additional 6 per cent, as is frequently allowed; in other words, for the volume of the order the discount is in many instances entirely out of proportion to the value of the order?—A. Yes. There is one thing more that I want to refer to in figuring these costs, and that is forward commitments. You take companies that are well financed. On low markets they can buy large quantities of merchandise, but the smaller company is not in a position to do that. I think that the forward commitments is a matter of investment, and should be considered as a matter of investment and not a matter of costs; and I would suggest on this cost system that costs would be revised every three months on the current market price. Now, here has been the practice in the industry when the market has been on the decline. The manufacturer stands to lose on that market. When the market is on the up-grade, the profits that he may have in his forward commitments as a rule are given away by selling goods at a low price; so he does not benefit to any great extent on the up market, and he loses 100 per cent on the down market.

Q. And is that particularly so in the matter of contracts for private brands?—A. Well, I would suspect so; I do not make them, so I do not know.

By Mr. Senn:

Q. When you speak of merchandise you mean your supplies of raw material?—A. Yes.

By Mr. Factor:

Q. Having regard to basic costs, who would regulate the wages paid to your employees?—A. I think that the wages paid should, to some extent, be determined by the operating company. I do not know any reason why it should not be dealt with by the organization.

By Mr. Sommerville:

Q. The same supervision as in the case of your other elements?—A. Yes, at the present time I think each company is operating independently on a wage scale.

By Mr. Factor:

Q. Would you have government supervision?—A. I would not see any reason why they should not supervise that the same as anything else.

By Mr. Kennedy (Winnipeg):

Q. In this set-up of an industry in which you provide for matters like rules and regulations, say they will play the game in that industry on rules such as for athletics if you like, and then you suggest government supervision, regulation or policing, we will call it?—A. Call it policing, or supervision.

Q. Now, the weakness or strength of such a set-up and its working out will depend a great deal on the nature of that supervision, will it not?—A. That is right.

Q. Now this is purely asking for an opinion, but you have had long experience in life and business, have you a faith that with such government supervision you are likely to get a more or less perfect condition of affairs; is there an inherent weakness in such supervision?—A. There would naturally be inherent weaknesses in it. But I think there are certain conditions existing in business, especially under the present conditions in this country, and the world's condition, that cannot be handled unless you do have a policing by government.

Q. In your judgment, that sentiment is growing?—A. I think so.

By the Chairman:

Q. Just following that question of Mr. Kennedy's, Mr. Carlisle, in your opinion would publicity in an inquiry by a government supervisory body be, shall I say, a salutory influence in the proper direction of industry, even though they had not the power to dictate?—A. I think it would be detrimental instead of helpful.

Q. You think it would be?—A. Yes, I think this: first, that people as a class are fair; and second, if the government had supervision or policing power, it would go a long ways to have different branches of industry regulate their own affairs on a fair basis. Where they could not come to an agreement, there is the place for government to step in and help them adjust the things that they are not able to adjust themselves. I think the amount of supervision that would be required of government would be the minimum. The fact that it exists is just the reason why it need only be the minimum.

By Mr. Kennedy (Winnipeg):

Q. Are you familiar with the legislation—it is almost parallel, I think—or the efforts made in legislation in certain western provinces in connection with the milk supply?—A. Yes, and other things. Take Alberta—

Q. It is along that line you recommend?—A. Yes, I think it is constructive.

By Mr. Senn:

Q. You think that could be applied to practically all industries?—A. Yes. I am not arguing the case of tires alone. I think it is applicable to all industry.

Q. That is in the line of the codes under the N.R.A. that you are advocating?—A. I think they have gone too much into details of operations. It is not advisable for governments to do this. There is a difference between policing and running industries. I think the N.R.A. has gone into almost every phase of operation, which I think is beyond the scope of government.

By Mr. Factor:

Q. I take it that you would expect from such regulations at least two results. One is the elimination of unfair practices?—A. That is right.

Q. And second, the stability of an industry that would work for the benefit not only of the manufacturer but the consumer and the producer?—A. Yes, for the benefit of the country.

By Mr. Edwards:

Q. Mr. Carlisle, I don't know whether I have it just right or not. You are not suggesting that additional supervisors be put on your industry like inspectors of various kinds, of which there are so many; but you are suggesting rather an arbitral board to decide, if the company or group itself cannot decide upon any one thing?—A. I think that should be left to the decision of the government. But my thought is that the department that is in charge of trade and commerce could operate this to the best interests of the country, the best interests of industry, with the minimum cost. It is not difficult to tell when things are wrong and when they are right, and it is usually not difficult to correct them. But when you get down into the details of operation, there is where you get into confusion. I would keep this on a high policing basis, with the government not entering into operations at all, but making decisions on policy where an industry fails to agree, in the interests not only of the industry but the people of this country.

Q. I asked that question for this reason: As you are aware, and as many of us are aware in industry, we are now supervised. For instance, in different departments we will have an inspector with us every one, two or three weeks. I think we have a great many too many. But your idea is rather an arbitral board to adjudicate on the problems that industry cannot handle itself?—A. Yes, that is right.

By Mr. Senn:

Q. Not in operating methods, but for the purpose of supervising marketing?—A. Both.

Q. Both?—A. Yes.

By the Chairman:

Q. There is one point I would like to make clear. Your scheme would involve, shall I say, an obligatory association. The members of the industry would be more or less forced to become parties to the organization or association?—A. That is what I recommended in my third recommendation.

By Mr. Kennedy (Winnipeg):

Q. Just one point there. I am interested in this: Among your suggestions was the cutting out or repealing of this Combines Act?—A. Yes.

Q. In this set up of yours, to be practical, one meets with this situation: In a given industry there is nothing inherently wrong in the members of an industry associating together for the purpose of maintaining a fair price. There is nothing fundamentally wrong in that?—A. I think it is constructive.

Q. Under an anti-combines act—the purpose of which I do not need to state, it being obvious—it is not sufficiently elastic. From the very fact that they do associate for the purpose of maintaining, we will say, a fair price, they become guilty under the act?—A. That is right.

Q. Therefore you would do away with any anti-combines act, and accept the principle that association for proper purposes should not only be permitted but is desirable for the industry and for the public in general; and such a body as you suggest would be sufficiently elastic to take the individual case and say whether it should be done or not, is that right?—A. That is right. Also that board: with organization for policing, by your government board or by your minister of trade and commerce so that there can be no unfair practices enter into this organization.

Q. The trouble with such an act as an anti-combines act is that they seize upon one phase of a thing?—A. That is it.

Q. Which is an offence, and make all such associations a crime?—A. And stifle progress.

By Mr. Senn:

Q. I fully agree with the principle of price maintenance. But would this board or arbitral tribunal which you would set up have the right to say when prices were too high?—A. Yes.

Q. That is one of their functions?—A. That is right.

By Mr. Kennedy (Winnipeg):

Q. And when they are too low?—A. Yes.

By Mr. Edwards:

Q. Following along in this line, I understand, of course, that you are in favour of price maintenance, a fair price?—A. That is right.

Q. So am I. In your opinion, is it possible to pay fair wages to your employees without having fair prices for your merchandise?—A. No, it is not.

By Mr. Kennedy (Peace River):

Q. Mr. Carlisle, Mr. Stevens asked you a little while ago about investigations. If we had a set up such as you suggest, we would have at least three different parties or classes interested: Labour, for instance; the people in the industry and the public. It would be very difficult to avoid investigations of particular industries, public investigations—once in a while, anyway—because situations would be bound to arise when one group would say they were being exploited by the other. Is that not so?—A. I don't know why it should be public. It should come up before your government organization. I am very much in favour of having that handled by the Department of Trade and Commerce. That department would know whether there were any unfair practices or not. It should be in a position to remove them. When you get people across the table, it is not difficult to settle problems with them, in any sort of dispute.

Q. Sometimes the government have a very hard time convincing the public that they are doing the right thing?—A. I know. That is true.

Q. That is one of the problems?

By Mr. Edwards:

Q. Mr. Carlisle, on this further point: Take such a board as you would set up in a given industry, we will say the rubber industry, for instance. In fixing a minimum price for that commodity, of course the element of world competition, competition of all sorts comes in. Would not such a board have to know pretty nearly as much about an industry as, say, a man like yourself who has grown up in it? I am just wondering about that, not only in that industry, but every industry. You take the iron and steel industry, where a firm builds up, goes through a family from father to son and so on down; they build up and are able to compete anywhere in the world because of their special knowledge. Are you not going to set a pretty high standard for those boards?—A. The board would get the facts, whether it pertains to internal selling or export business; and having the facts, I think the board or government agent could form as good a conclusion as if he had a complete operating knowledge.

Mr. Edwards: Again on that line, Mr. Carlisle, it has been suggested to me by one of our large furniture manufacturers that a man thoroughly competent in understanding the furniture business—possibly another one on the textile business, and another one on iron and steel, which covers innumerable lines—that men of that type be set up as a board. Of course, I think that suggestion is rather primitive, but it is worth following along rather than doing as has been done with some boards that have been set up, without really any thought as to the qualifications of them to judge the matter before them. There are many things in industry that are really only known to the men who have gone through the business.

By Mr. Kennedy (Winnipeg):

Q. Mr. Carlisle, under this system of regimentation of business as distinguished from the old free competition, you might say, is there anything to be said, or is there nothing to be said in favour of the old law of the jungle prevailing,—the survival of the fittest?—A. Oh, I think in all life the survival of the fittest wins. That is true in plant life as well as animal life or human activity, that the survival of the fittest will win. During these present disturbed conditions, I think that you will further increase monopoly if you will leave it to the survival of the fittest. I think now we want more decentralization than we want centralization. Centralization, I think, has a lot to do with the amount of unemployment that we have to-day, and if you increase the centralization it will not be long until a few concerns will operate the entire business of the country.

By Mr. Senn:

Q. Mr. Carlisle, that is just one matter that has been bothering me to a certain extent. Any system of price maintenance must necessarily take into account the cost of production. Presumably a plan that operates by hand labour must have a higher cost of production than a plant that is operating largely by machinery?—A. That is not necessarily correct.

Q. But is it not true in general?—A. Your machine only becomes efficient and economic when you have sufficient production to make it so. Now, we have a machine in our factory which, on low production, would be a liability. When we are on high production I think it takes the place of eight men.

Q. Well, the question is just how any board is going to determine the amount of machine production that could be successfully used in any plant in competition with hand labour?—A. I think that that would have to be worked out by the industry, and not by a board. If the board would ask that industry to use the maximum of manual labour instead of machine labour, I think the industry could go a long way in doing that.

Q. Would you advocate the use of more hand labour rather than machine labour in ordinary industry—in your own industry?—A. As far as industry, domestic industry, is concerned, it would be a constructive thing to do; because you have got to either employ people or you have got to support them, and people are better employed than they are supported. It is a better state of society.

Q. In other words, you think that machine production has gone too far in industry to be in the national interests?—A. I am inclined to that opinion.

By Mr. Heaps:

Q. Would it not be just the same instead of increasing the cost of production by hand labour, to decrease the number of hours?—A. In decreasing the number of hours you are liable to get a cost on your product that makes it too expensive to sell, especially in foreign markets. In our company, during this slack time of employment, we have gone to the six-hour shift, so as to distribute the work to the greatest extent possible. Now, while our wages appear low, I think they are in keeping and are better on the average than most industries. At the same time, the weekly earnings of the people is quite low owing to the shorter hours worked. If you put up your price per unit product or per hour, you get too high a cost, and then it reacts on you.

Q. Would not the same thing apply if you went back to hand production? —A. No. You can operate many of your operations by hand at no increased cost. Some of them you can't.

Q. If you employ more labour, as you suggest you would by hand labour, how could you produce at the same cost?—A. If producing by hand does not

cost you more by hand per unit than by machine, you are not increasing your cost.

Q. You don't favour reduction of hours at all; you simply replace machinery by hand labour and increase the number of persons employed?—A. I think it is better than the other.

Q. Do you think that by the scheme you suggested here you could stabilize employment?—A. I don't know whether you could or not.

Q. Would it improve, in any way, the position of the labourer?—A. Yes, because you would stabilize your return to the company.

Q. If you stabilized the return to the company, would it improve the position of the man employed by the company?—A. Of course it would.

Q. Would it increase his wages? -A. If the company is not making money, it can't very well afford to pay high wages, can it?

Q. That is true; but would it give to the man employed by the industry an annual guarantee for his labour?—A. I don't know that you can guarantee it. The way that industry is operated—the way that we have operated, when we are making a profit, a substantial profit, we increase the wages.

Q. But you are asking this morning that in some way the government regulate prices?—A. Yes.

Q. You have got to give to the industry a reasonable return, but don't you think that the man engaged in the industry is entitled to consideration?—A. Certainly.

Mr. Sommerville: I think Mr. Carlisle prefaced his statement by saying that you could not have fair wages without fair prices.

Mr. Heaps: Yes.

Mr. Sommerville: And to insure a fair wage would require a fair price.

Mr. Heaps: I don't think in anything Mr. Carlisle suggested it would guarantee to the persons employed in the industry anything in the way of permanence, or a guaranteed annual wage.

Mr. Factor: He said he was in favour of the government regulating wages too, in arriving at the prices.

By Mr. Ilsley:

Q. To put your scheme into effect would mean the institution of a system of codes in this country, would it not, very much like those instituted in the United States?—A. I don't think so.

Q. Well, along the line of Mr. Heaps' question, if the government regulates prices—which it really would—it would have to regulate wages too, would it not?—A. Yes.

Q. That would lead the government to the position where they regulate all the things that are regulated by the codes in the United States, inevitably, would it not?—A. I think not.

Q. What would not be regulated here that is regulated there?—A. Oh, they go into a lot of detail there in operations. They have interlocking codes, and I think their operations there are too cumbersome.

Q. Have you made a study of the operation of the code that applies to the rubber tire industry in the United States?—A. Yes.

Q. Would you care to give an opinion as to how it appears to be working out?—A. It has only been in operation for a very short time, but I think it has made improvements.

Q. It has made improvements, you think?—A. Yes, decidedly so. I will take some of these things up a little later.

Q. As I understand it, there are perpetual hearings over there on the question as to whether the codes are being carried out by the industries or not. Is that right?—A. I think that is true.

Q. Would you not have to have an immense governmental organization here to enforce the understandings that would be arrived at between the various companies in an industry?—A. I think if the penalty were severe enough, you would not have any trouble enforcing them.

Q. By a system of penalties?—A. Yes.

Q. You suggested supervision by the Department of Trade and Commerce, didn't you?—A. Yes.

Q. Don't you think that that would be entirely inadequate for the industry of Canada, to place it under the supervision of one department of government?—A. I would be willing, as far as I am concerned, to submit to that department.

Q. But your recommendations do not apply only to the rubber tire industry. They apply to the industry of Canada generally?—A. That is right.

Q. It would surely mean an immense increase in the number of regulating officials in the country?—A. My thought is this: That an industry should regulate itself. Where it fails to regulate itself, where you can't get an agreement, where a majority of that industry recommends a certain thing, to submit that to the government for the government's final decision whether that shall go in or whether it shall not, whether it should be modified or whether it should not.

By Mr. Sommerville:

Q. You would entirely leave it as an industry governing itself?—A. Yes.

Q. Subject to supervision?—A. Yes, and to arbitration by the government.

Mr. ILSLEY: That is exactly what took place under the N.R.A.

The WITNESS: Oh, they go further into it, enforcing conditions there. They go more into costs and things like that.

Mr. ILSLEY: The government would have to do that.

By Mr. Edwards:

Q. Don't they set down rules and regulations and everything else for the running of your industry?—A. Yes.

By Mr. Ilsley:

Q. In the States?—A. Yes.

Mr. ILSLEY: In the States the industries are invited to make codes themselves. If they fail, or can't agree on satisfactory codes, the government steps in. That would be the feature of your recommendation.

By Mr. Edwards:

Q. I think up to the point where they are asked to make codes we are in agreement. But your idea is that instead of being supervised, with a host of supervisors in every industry, where they can't decide upon matters themselves, they simply refer them to arbitration by the Department of Trade and Commerce?—A. Yes, bring it up and submit their facts, just like you would bring your case to a court for a decision.

Q. I think Mr. Ilsley had the idea, judging from his question, that it would be an expensive proposition to supervise these industries. It would not necessarily be that?—A. No, I don't think so.

By Mr. Kennedy (Winnipeg):

Q. You would have the minimum of interference, but the board would be there in case of need?—A. That is all.

By Mr. Senn:

Q. Just one more question. Do I understand that you do not advocate a board of this nature taking cognizance of a complaint, say, from a consumers' organization?—A. Well, yes, they should.

Q. That would open up the whole question?—A. If there is a complaint against an industry of that kind, it would be up to the industry to inform the government whether that complaint was correct or incorrect.

By Mr. Ilsley:

Q. As I understand it, they have elaborate hearings at Washington all the time, immensely elaborate hearings?—A. They do.

Q. I understand that they are going on continually, covering 600 or 700 industries,—and that the budget of the government is run up from about $2,000,000,000 to about $10,000,000,000 a year. If the same were done here, the budget instead of being $400,000,000 would be $2,000,000,000, perhaps not entirely due to that, but that is one of the chief features of it. Do you think that system as applied to Canada would be practicable or in the interests of the people?—A. Not at that expense, but I don't think it has to go to that expense, or any great expense whatsoever.

Mr. Sommerville: At the present time there is no system of penalties under the American codes. There is a system of appearing before a court.

Mr. Factor: There are penalties provided for breach of the codes.

Mr. Sommerville: The only penalty is removal of the sign.

Mr. Heaps: No.

Mr. Factor: No, there are penalties.

Mr. Sommerville: They are very trifling.

By Mr. Factor:

Q. Mr. Carlisle, would you favour the government limiting the profits earned by industry?—A. They could do that by limiting the price.

Q. If, for instance, the Department of Trade and Commerce found that a certain particular industry was making exorbitant profits, you say you would favour regulation of those profits by having the price reduced?—A. I think it is in the interests of industry to do that. I just want to make one remark about high profits. I don't know of anything that is more destructive to industry than that and I will tell you why. It invites and does create competition, and you get over-built industry which in the future disorganizes and practically eliminates profit from the industry. I think that high profits are strictly dangerous to any industry.

Q. We have had an illustration here in the tobacco industry—if I may express my views, and the members of the committee—which made exorbitant profits. How would be government regulate the profits earned by the tobacco industry under your scheme?—A. Reduce their selling price, or increase the price they pay for their products.

Mr. Young: That might help control the Imperial, but then you put the smaller manufacturers out of business. They say they can hardly exist with the present prices.

By Mr. Sommerville:

Q. You would do away with the unfair practices of which they complain? —A. Yes.

Mr. Sommerville: Then they say they can get along.

Mr. Factor: That does not help the problem of eliminating the smaller manufacturers. If you are going to increase the price of the raw material and decrease the price of the product that he has to sell, the small manufacturer would be out business, out of the picture.

The Witness: May be the small manufacturer is paying a great deal more for his raw product than the other fellow is.

Mr. Young: That was not the evidence that we had.

The Witness: I don't know.

Mr. Young: The evidence was just the reverse.

By Mr. Factor:

Q. Is there any practical suggestion you can give this committee as far as regulating profit goes, if the government or the department finds an industry earning exorbitant profits? You say it does not help in the industry. Would you give us the benefit of your advice or some practical suggestion on reducing those profits?—A. Lowering the selling price.

By Mr. Sommerville:

Q. That gives an advantage to the consumer?—A. That is right.

By the Chairman:

Q. What would you think of a graduated income tax on corporations instead of a flat rate, similar to what you put on private incomes, the higher the income the greater the tax?—A. I hardly think it is fair, for this reason: You take a company that is efficient, properly financed and is putting all of its energy into its operations. I think it is unfair to take that profit away from the company, and to compare that with the company that is inefficient, improperly capitalized and is not putting proper effort into its business. You are penalizing the fellow for efficiency.

By Mr. Kennedy (Winnipeg):

Q. Would there not be a reaction from such a conscription of profits tending to make a concern disinterested in building up?—A. Certainly. Take away all incentive.

By Mr. Senn:

Q. There would also be the danger of the company increasing its capitalization, would there not, to make its profits?—A. I think it would be decidedly detrimental to the industry of this country to put on a graduated tax.

By Mr. Young:

Q. Mr. Carlisle, your plan contemplates selling the product to the consumer at a price that will give to everybody that has touched it so far an adequate return, is that right?—A. That is right.

Q. What will you do with an industry that sells its product on the world's market where you cannot control the price?—A. You mean export?

Q. Yes?—A. You will have to meet that. If you sell on the export market, you have to meet it in quality of products, meet it in price, and meet it in service.

Q. Very well. You have industries in Canada that sell the bulk of their products within the country?—A. Yes.

Q. And in that case you can apply your system—we will say you can—and charge the consumer prices sufficient to meet all your requirements. But when you go to the export market, there is a place you can't do that. How are you going to compensate those people for the additional price that they pay for the things that are sold entirely within the country?—A. I don't get your question.

Q. I mean this: In the tire industry, for example, by this scheme of yours you can sell those tires to the public at prices that will enable you to pay adequate wages, maintain your dividends, build up reserves, allow for depreciation and all that; but when you come to sell in wheat, you can't do that. You

can't raise the price of the farmer's wheat by a single cent, but yet you make him pay an extra price for his tires?—A. Well, because one industry of a country is unfortunate in its make-up is no reason for you to put all the industries in the country on a nonprofitable basis.

Q. The wheat industry is not the only industry. Our lumber industry is in the same position, and several other industries that depend on the export market. In your own industry here I find that the price of rubber and its products has declined from 100 in 1929 to 84·6 in 1934; and the bulk of that decline, I believe, has come from the decline in the price of raw rubber. But in farm products the price has declined from 100 in 1929 to 57·9. That is not wheat alone. It is all farm products. There you have a very large class of this community whose income has been cut almost in half; and you are going the other way now with a scheme to make these people pay more for everything they buy, but you are powerless to increase the price of what they sell?—A. Well, your thought is that all industry should be brought down to the unfortunate position of one industry?

Q. I am asking you this: When you find one industry in this unfortunate position, how will you justify a plan that proposes taking more out of them and giving it to others who are not so unfortunate?

Mr. Sommerville: Well, you are not doing that. You are not suggesting that.

Mr. Ilsley: Let us have the answer.

Mr. Sommerville: That is not what Mr. Carlisle is suggesting.

Mr. Young: That is my question. I want an answer to it.

Mr. Sommerville: Mr. Carlisle's suggestion is that you improve industry so that it may help all in the country.

Mr. Young: Mr. Carlisle's suggestion is that they would charge a price for the product, and no doubt that will enable industry to do all the things that he outlines. I say that involves making the farmer pay more for the things he buys.

Mr. Heaps: No, he has not said anything of the kind.

Mr. Young: I say it does.

Mr. Heaps: Mr. Carlisle has not said that.

Mr. Ilsley: It does. It is in the United States.

Mr. Heaps: Is it not possible to reduce the cost by the method you suggest?

Mr. Young: It is. Mr. Carlisle contemplates reducing the cost in order to raise the profits.

The Chairman: Just a minute, gentlemen; we are getting into an argument across the table. I think we should allow Mr. Carlisle to proceed with his statement, having in mind the rather lengthy question, and see if he does not deal with it.

Mr. Factor: I would like to hear Mr. Carlisle who is an authority in industry; I would like to hear his observations on this particular phase of it.

Mr. Ilsley: Mr. Young's question, I think, is a perfectly legitimate question.

The Chairman: But let us give Mr. Carlisle a chance to answer.

Mr. Kennedy (*Peace River*): The question is based on this idea, that Mr. Carlisle is suggesting something that will lead to an increase in prices, and I think we ought to get from him whether that is so or not.

The Chairman: All right, let Mr. Carlisle proceed.

The Witness: Will you state the question, Mr. Stevens?

The CHAIRMAN: Briefly stated, if Mr. Young will permit me the question is this: That the producer of wheat has to market the major portion of his product on the export market and is, therefore, subject to world competitive conditions; he intimates that your proposal would develop a more or less sheltered condition for Canadian industries manufacturing the goods that the farmer has to buy. How, therefore, will you justify to the exporter of wheat the position that you put him in by forcing him to pay more for his goods that he has to buy in Canada?

The WITNESS: His question presupposes that this scheme means an immediate advancement in price of manufactured goods and it does not do anything of the kind. My scheme is for the stabilization and fair practices in industry, and if that is done I think that the industries could operate on a profitable basis to themselves and profitable for the country and still not increase its prices. Just because you are stabilizing prices and because you are introducing a unit in industry does not mean that you are raising prices.

By Mr. Sommerville:

Q. You are avoiding— —A. The disturbing elements in business, and I am not talking about price increase; I am talking about price regulation instead of price increase.

By Mr. Factor:

Q. Yes, but under present conditions, Mr. Carlisle, in order to stabilize industry you will have to increase your prices.—A. It would be the last thing that I would want to do if this was done to-day, as far as Goodyear Rubber & Tire Company is concerned; I would not increase prices.

By Mr. Kennedy (Peace River):

Q. For instance, Mr. Carlisle, applying it to, say, the tobacco industry, such regulation might result in reducing prices?—A. Yes, sir.

By Mr. Young:

Q. Well now, just going back for a moment, the price of rubber and its products dropped from 100 in 1929 to 84·6 to-day, and the price of farm products in the same period dropped from 100 to 52·9. Now, is that what you want to maintain?—A. I have got nothing to do with that.

By Mr. Ilsley:

Q. Mr. Carlisle, the result of codes in the United States has been to increase prices in practically all the big industries.—A. That has been the purpose of their government. The present United States government started out with the determination to raise prices in the United States. I think it is a detriment instead of a benefit. This country is an export country, naturally so, and it would be more of a detriment than anything else to increase prices. I am not advocating increasing prices, I am advocating stabilization of industry.

Q. Yes, but I thought it was pretty well agreed that the effect of codes, doing away with low labour costs and all other low costs, and giving everybody a fair return, guaranteeing it to them, placed a great big burden on industry which has resulted in higher prices, but perhaps I am wrong in that.

The CHAIRMAN: Mr. Carlisle, will you now proceed. I think we have perhaps bothered Mr. Carlisle a little too much, and we will let him proceed with his statement.

The WITNESS: Now, the next thing that I would call your attention to is a better administration of the Companies Act. That may appear somewhat afield from price fixing or price maintenance, but it has this effect on industry, that a great deal of the ill effects that we have in industry are caused directly by the maladministration of the Companies Act; companies have been allowed to increase capital; companies have been brought into existence with capital that was beyond their requirements, and these stocks and securities were sold to the public when the public has no chance of getting a return of its money or an adequate return on its investment. Another thing, companies are brought into existence without a careful study as to whether that company has a chance of success or whether it has not, or whether the industry is overbuilt or whether it is not; the nature of the operation of the company is often not investigated. That was shown here yesterday, that this industry has $76,000,000 of invested capital; I called your attention to the price of a tire in 1920 which was, I believe, about $21.

Mr. YOUNG: $25 you said.

The WITNESS: Well, that tire to-day is selling for $3.96. Its mileage has been doubled or trebled. Now, to get the increase of mileage that is in the tire it has cost many hundreds of thousands of dollars, perhaps going into the millions in development expenses.

By Mr. Sommerville:

Q. In research work?—A. Yes, in research work. Now, the public has got the benefit of that. I take exception to licensing a company to manufacture, say tires, where this company has no laboratory, where it has no engineering department, where it is contributing nothing to the future of a product. That company comes in and copies your product and sells it at a price that is demoralizing to the whole industry. I think that is one of the things that should be remedied.

By Mr. Factor:

Q. How, Mr. Carlisle?—By prohibiting companies from entering into business?—A. Unless they are qualified to go into business, and unless there is room for them to go into business. You say that would mean a monopoly for those who are already in business. If you want to distribute business to a greater extent, when those who are in business apply for additional expansion through Letters Patent it may not be wise to grant them; but if there are five companies that can supply the market and do it adequately, if you would license ten more then you would have fifteen which would mean complete demoralization of that industry, resulting in low wages, poor product, a loss in investments, and generally bankruptcy.

By Mr. Young:

Q. Is it not a fact that before Henry Ford started to manufacture automobiles there were sufficient factories in the United States to supply the market?

Mr. SOMMERVILLE: Were there any?

The WITNESS: I do not know as to that.

Mr. YOUNG: Yes, there were sufficient to supply the market, and if these men had been asked if they needed any more factories to supply automobiles to the United States they would have said no and Henry Ford would never have been heard from. However, the fact remains that he opened up a factory and he has been in the business long enough to put automobiles into the hands of nearly everybody in the country; is not that a fact.

The WITNESS: Would you recommend then multiplying companies in such a way that they could not exist at all?

Mr. YOUNG: I would say that a man himself is the best judge as to whether he is competent to go into a business or not, more competent than any civil servant, or some other competitor or competitors who do not want them in.

By Mr. Edwards:

Q. Is that not the policy and practice in Italy at the present time?—A. I do not know.

Mr. EDWARDS: I think you will find it is.

By Mr. Factor:

Q. But your scheme, Mr. Carlisle, it does seem to me, would be creating a monopoly, leaving all the business to the existing companies.—A. Those companies would keep on expanding in the industry.

Q. But they would still control the business.—A. Not necessarily. When there is room for the sixth company then license the sixth; if there is room for eight companies license the eight, but do not put in fifteen companies when there is only room for five.

By Mr. Ilsley:

Q. Would not that system make for stagnation just as Mr. Young says? There is a lot of cruelty, I know, under this "jungle system," as it has been called, but it certainly does pull down prices for the most part, does it not, and extend markets and give things to the consumer at a much lower cost. That has been the history of it for the last several years.—A. When you get an industry overbuilt.

Q. Oh yes, some of them might get out, the inefficient ones are driven to the wall, that has always been the case; that is the cruel capitalistic system. —A. And when they go out of business somebody buys them in at a few cents on the dollar and they start up again.

By Mr. Sommerville:

Q. In your earlier statement you referred to inflation and over-capitalization as one of the elements that ought to be guarded against in the administration of the Companies Act. Were you referring there to reorganizations that have taken place when industries have increased their capitalization and securities and sold to the public?—A. That is right.

Q. Without any public safeguard?—A. Yes, without much intrinsic value back of the stocks that are sold. Yesterday there was a reference made to special brand tires. I think it would only be fair to the consuming public if merchandise—and especially certain kinds of merchandise that are sold or manufactured—should bear the manufacturer's name. In doing that you give protection to the public. Now, private brand tires can be inferior in quality; they are not all that way, but they can be that way, and often they are; but there would be one of two things: There is every advantage in selling where those tires can be sold at a lower price without interfering with your standard lines, so that the quality can be inferior and then the company manufacturing them does not have to bear the responsibility for that inferior quality. I have a circular here, or a catalogue, and I want to call your attention to it. They have different tires listed; they have a third grade tire and they compare their third grade tire against the list price of the third grade tire of the standard companies. The tires we have examined, as sold by this company, are of a very inferior grade, but they make a comparison with the third grade tires of the

standard companies. Here is a tire that the standard companies are selling for $6.15, and they offer that for sale for $4.62. The name of the manufacturer does not appear. In the first place, this price list of $6.15 is the published price of the tire, but it is not the price that the dealer secures from the sale of the tire, and in publishing this difference in price it creates a sale for this inferior tire. Take it in the other grade: They compare a tire there with the highest priced tire made by the standard companies, and it shows a difference in selling price varying from 50 per cent to 60 per cent; and in another column there is another tire that is still of a higher grade than the tire that he compares with the grade of the standard companies, and this last tire is a second grade tire of the manufacturer that supplies this tire. You can see the injustice of such selling as that.

By the Chairman:

Q. Does that not come under the head of misleading advertising?—A. Well, this company has been convicted.

Mr. Factor: It was convicted in Toronto recently for false advertising.

The Witness: For false advertising and for false selling, but now this catalogue has come out here since these convictions and there is that unfair comparison in price, and it is misleading the public, and it is very detrimental to the industry.

By the Chairman:

Q. Well now, one reason for that you say would be if the manufacturer were forced to put his name or the name of the firm on the product?—A. That is right.

Q. And although the tire may bear the trade mark or name of the distributor, whether it does or not the manufacturer's name would be clearly disclosed on the tire?—A. I think so.

Q. That is one remedial measure you suggest?—A. Yes.

By Mr. Sommerville:

Q. Is it not in the interest of the manufacturer that his name be on the tire?—A. I think it is.

Q. Perhaps you will tell the committee what advantage it has to be there, and what is the effect of the omission of the name?—A. Well, when the manufacturers' name does not appear on the merchandise he has no control over it in any shape or form. Now, if I am selling a special brand article and you are supplying it, if I do not care to deal with you or if you do not give me the price that I ask I can go to somebody else and get that same article. Now, the loss or volume of business,—you have gained nothing there excepting the money that you made out of them, but if your name was on that tire, or on that article, the public knows who manufactured it and you have built up an asset in your business by having your name on that article.

By Mr. Factor:

Q. That principle extends to other than tires?—A. In most kinds of merchandise. In some cases it might not be practical to do that.

By Mr. Edwards:

Q. Would not that go a little further, Mr. Carlisle? Would it not have the tendency which possibly is to be sought after of eliminating the tire with the dealer's name on it only, at least if the manufacturer's name were placed on that tire it would have the effect of not antagonizing your regular dealers; it would have a tendency to stop that sort of thing, would it not?—A. I think so.

By Mr. Sommerville:

Q. On the other hand, has it been the experience in the United States that firms who have built up private brands have switched from one manufacturer to another and left him without any outlets?—A. Well, that is possible in places. And here is another thing: If you have followed the evidence of selling special brands in the United States you would find that when the fellow that bought special brand tires built up his volume of purchases from the manufacturer then the purchaser of the tires put up practically an impossible position to the manufacturer from whom he was dealing, and he had either to accept or lose the business.

By the Chairman:

Q. They dominate the manufacturer?—A. Yes. In one case they were supposed to get 6 per cent or $6\frac{1}{2}$ per cent over cost, but the purchaser determined how this cost should be worked out and they got certain concessions for adjustments. When the thing was boiled down, why, the manufacturer got 2 per cent or 3 per cent.

By Mr. Sommerville:

Q. What do you mean by that? Please illustrate to the committee, if you will, just what you have in mind. In arriving at costs what did the buyer of special brand tires eliminate from the costs of the manufacturer in that instance in the United States?—A. In this one case that they speak of, they would not allow anything for old age pensions, or for insurance; they would not allow the general overhead of the business to be included.

Q. You mean group insurance?—A. Yes, group insurance, and they would only allow the overhead in the particular plants where those tires were made. In fact, there were a great many things that would be eliminated.

Q. And as a result of these deductions from the cost, the cost was cut down to about 1 per cent or 2 per cent?—A. 2 per cent or 3 per cent, from the evidence given.

Q. And, in addition to that, what other terms do they impose?—A. Well, in one case they threatened to take away their business from the company unless this manufacturing company gave them a certain block of their stock.

Q. And a block of stock was given?—A. I understand so.

Q. To the private brand buyer?—A. Yes, sir.

Q. That was a very substantial block of stock, I understand?—A. It was.

By Mr. Senn:

Q. Would any reputable manufacturer care to risk his reputation, or the reputation of his standard brand tires, by printing his name on other tires? —A. Then they ought not to be sold.

By Mr. Sommerville:

Q. Why should a manufacturer be ashamed of his product if it is a good product? You think the consumer would be protected?—A. I do.

By Mr. Factor:

Q. But is the branded tire of an inferior quality to the standard?—A. It may be and it may not be. It depends on who it is made for. There are people selling private brand tires that are particular in doing business. Take for instance a tire that Eatons sell, they will sell the quality that they represent; they would not misrepresent the quality. The same is true of Atlas, they would not misrepresent the quality. But there are cases of misrepresentations in quality and false advertising, and it is for protection against that kind of selling that I am asking.

By Mr. Senn:

Q. Would it not have the effect then of driving standard companies out of that business, and other companies whose workmanship was not so good and material perhaps not so good would get the business and continue the business?—A. They could not stay in business for any period of time on account of the poor quality of their products.

Q. Not even if they buy them cheaper?—A. I don't think so.

By Mr. Heaps:

Q. Mr. Carlisle, how many tires are imported into the country?—A. Not a great many.

Q. You were talking about the export of Canadian tires. Are there many tires exported?—A. The export business is increasing.

Q. And is your main competitor in the export business?—A. All the companies throughout the world.

Q. Do you find the United States your biggest competitor?—A. That country, and Germany, France and England.

Q. You spoke about labour conditions. Are the costs of your company determined, to a certain extent, by your labour costs; if the United States is a competitor in the export market the labour costs there are, in fact, a little higher than here?—A. Their general costs are higher than they are here at the present time, and that gives us an advantage in the export market.

Q. It is an advantage to Canada in the export market?—A. Yes.

Q. Is there much difference in the labour cost in the United States as compared to Canada under the N.R.A.?—A. I have not a comparison, but I think that they are higher there.

Q. Well, they are able to compete, to sell their goods lower than you are in Canada?—A. I doubt if they are at the present time.

By Mr. Ilsley:

Q. Do you find that codes in the United States are giving Canada an advantage in the export market?—A. I think so.

Mr. SOMMERVILLE: We have the wage schedules of the various tire companies, Mr. Heaps, already filed.

Mr. HEAPS: In Canada and the United States?

Mr. SOMMERVILLE: Not in the United States.

Mr. HEAPS: If you had the codes of the United States that would give us the wages.

The CHAIRMAN: We have the codes.

The WITNESS: The wages paid in the rubber industry, I think, are quite satisfactory.

Mr. HEAPS: In Canada?

The WITNESS: Yes.

Mr. SOMMERVILLE: I observe that we have here seven companies. Perhaps this might be as good a time as any just to put on the record a short analysis that we have made of those wage scales.

Company No. 1, the weekly wage for men averages $19.52.

Mr. HEAPS: How many hours?

Mr. SOMMERVILLE: In that case we have not got the exact number of hours, but they are not full 48-hour weeks.

Mr. HEAPS: Is that the actual wages earned or the wage rates?

Mr. SOMMERVILLE: Those are the actual wages earned, but only one company has given the hours, and that is for 36 hours. May I put the list on the record in complete form:—

Company No. 1, weekly wage for males $19.52; for females $11.95; the hourly average, for males 47 cents the hourly rate for women 28·9 cents. May I put it this way, the hourly rate for men is ·471 and for women ·289.

Company No. 2, the weekly average rate through the year 1933, males $19.23; females $12.60; hourly rate males ·519; females ·355.

Company No. 3, average weekly rate $21.25 for males; for females $12.57; average hourly rate for males ·597; and for females ·334.

Company No. 4, average weekly rate for males $20.40; for females $12.48; average hourly rate for males ·487; for females ·300.

Company No. 5, weekly average rate for males $21.50; and for females $11.90. I have not the average hourly rate there.

Company No. 6, average weekly rate for males $41.24; for females $22.74. The average hourly rate in that plant is ·535 for males and for females ·320. That is for a two-week period, and, therefore, the average would not be as high. The average hourly rate would be the same as I have given, but the weekly rate was for two weeks. They give theirs bi-monthly and the average given was for two weeks—$41.24 for men and $22.74 for women.

Number 6: average wage for men $17.79—women $11.18; hourly rate average from 25 to 52 cents which has not been averaged out yet, and for women ·241. The spread analysed shows that the hourly male average was from ·471 to ·597 per hour; females from ·289 to ·355 per hour; weekly for males from $17.79 to $20.62 and for females from $11.18 to $12.60.

Mr. HEAPS: May I ask if you can give the province in which those factories are located?

Mr. SOMMERVILLE: These are all in the province of Ontario.

Mr. HEAPS: Have we got the province of Quebec? Are there any tires manufactured in the province of Quebec?

The WITNESS: The Perfection.

Mr. SOMMERVILLE: That is not in the association?

The WITNESS: No.

Mr. FACTOR: Have you made an analysis of the footwear wage scale?

Mr. HEAPS: You did not state the period for which this wage applied.

Mr. SOMMERVILLE: This is the average for the entire year 1933, and we have the list of the wages paid in every plant for the entire year.

The CHAIRMAN: In answer to that question, we now have the footwear wages and they will be filed.

(Footwear wages filed, marked Exhibit 199.)

Mr. FACTOR: Will there be an analysis?

The CHAIRMAN: We will have an analysis made of it.

Mr. FACTOR: When you make the analysis, can you make it by provinces?

The CHAIRMAN: We will do that. Now, Mr. Carlisle is there anything further?

The WITNESS: I would like to enumerate some of the abuses that are in the tire business at the present time. One thing that is very disturbing to the prices is what we call loss leaders where tires are sold at cost or less than cost as a drawing card for business. We believe the department stores in the States and the chain stores in the States sold 31 per cent of their goods last year by that method.

By Mr. Factor:

Q. In the United States?—A. Yes.

Q. What about Canada?—A. I do not know the figures in Canada. The condition is not as bad in Canada as in the United States.

By Mr. Sommerville:

Q. It grew to that extent last year in the United States?—A. Yes.

Q. What was the effect upon the industry in the United States of that practice?—A. It is very demoralizing. The tire prices in the United States have been awful, and look at the losses the companies have sustained. There was no such thing as a stabilized price until the government stepped in and they have made certain regulations that have improved the condition. And another thing that is detrimental and very disturbing to the selling of tires in this country is what we call seasonal sale, where the merchant will put on a week's sale or two weeks or sometimes a month's sale, and during that time it affects the legitimate selling and maintenance of price in industry.

Mr. SENN: These seasonal sales would not be old stock, would they?

The WITNESS: No. They are tires usually bought at a special price and sold at special prices, a sort of drawing card. They are put on in the spring or a mid-summer sale or often a sale in the fall. Now, another thing that is an unfair practice—the industry's tire adjustment and tire guarantees—that is a means of reduction in the price and I think it should be regulated. In the United States they had a guarantee that guaranteed material and workmanship of the tire during its lifetime, and then they had a year's guarantee against almost any hazard. I think there were a few exceptions. The government in the United States a few days ago reduced that guarantee to ninety days which I think is constructive, and I think it should be done in this country.

By Mr. Young:

Q. Do you mean to say you would prevent a man guaranteeing his product? —A. No. A ninety-day guarantee is a fair guarantee; but it is an unlimited guarantee, is it not.

By Mr. Sommerville:

Q. The guarantees had reached the point in the United States where they guaranteed against almost every conceivable hazard on the road, whether it was the fault of the tire or not?—A. That is right.

Mr. FACTOR: What about the Canadian situation?

The WITNESS: We have a guarantee, a time guarantee. I think on some grades of tires it is for nine months and other grades of tires it is for a year. I think it is a very unfair guarantee.

Mr. SOMMERVILLE: You guarantee against all road hazards?

The WITNESS: Practically all.

Mr. SENN: You do not mean that that guarantee in the United States was limited on workmanship and material?

The WITNESS: No. They have a time guarantee as well; but the government now only allows guarantees against defects for ninety days.

Mr. EDWARDS: In other words, you think a defect will show up within ninety days?

The WITNESS: I think so.

Mr. YOUNG: Have you a mileage guarantee?

The WITNESS: No, we have not.

By Mr. Sommerville

Q. There used to be?—A. Yes.

Q. And that has been replaced by the guarantee against all road hazards, has it not?—A. Now, many other conditions are not good. There are special and secret discounts which lead to price cutting. I have a number of advertisements here, some from Montreal and other locations, where they are advertising tires at cost. Now, it costs the retailer something to do business, perhaps 15 per cent. If he gets his regular margin he wants 40 per cent. Here he is advertising at cost. That is very destructive and should be prohibited. Selling tires at cost he is losing money, and he is merely draining his capital in an effort to sell his goods. Here are some of the remedies—

Q. Or else it comes out of his profit on other goods—A. Yes, or out of his other goods. Now, these are some of the abuses that should be corrected, and I think it is the purpose of this committee to make such corrections and to ask for such legislation that will give fair remedies to the malpractices that are in the industry. If this is to be done, I take it you have sufficient information here as to the industry in general to be able to formulate such legislation, and if there is to be a correction I think it can only come through legislation, and I have my doubts if very much improvement, if any, can be made through further public examinations.

By Mr. Young:

Q. Have you ever had any price maintenance arrangement in Canada in the tire business?—A. Yes.

Q. When?—A. Oh, a number of years ago, I think there is practically none at the present time that I know of.

Q. Was there any last year?—A. I think not. I would like to see maintained prices—would lend myself to the fullest extent to bring that about; but prices were not maintained last year.

By Mr. Factor:

Q. You do not believe in the principle that publicity has a certain levelling effect in remedying abuses?—A. No, I do not. I think it will have to be done through direct control.

Witness retired.

W. A. Eden, called and sworn.

By Mr. Sommerville:

Q. What is your position?—A. President, Dominion Rubber Company.

Q. And what is your position in the Rubber Association, the Footwear Association?—A. I am a director of the Rubber Association.

Q. Now, Mr. Hannay stated yesterday that in the Rubber Association there was a branch or a group known as the Rubber Footwear Association, and you are now representing them in your presentation to the committee?—A. Yes.

Q. Who are the members that constitute the Rubber Footwear group in the Rubber Footwear Association? Well, we got them from Mr. Hannay yesterday, so you do not need to repeat them. Now, we have had presented to us from several sources the complaint, Mr. Eden, that the Rubber Footwear Association have a certain group of distributors whom they allow a larger discount to than others?—A. Yes, they are all filed with you, I believe.

Q. And I observe on the statement that is filed your discounts are arranged to listed accounts as follows: group A get a discount on tennis footwear of 12

per cent; group B get a discount of 10 per cent; group C get a discount of 8 per cent and group D get a discount of 6 per cent. Is that correct?—A. Yes.

Q. Now, that is this season's discount allowance on tennis footwear. Then, on last year's tennis footwear the grouping was the same except that group A got 15 per cent discount; is that correct?—A. Fourteen, I believe.

Q. Well, this is on the statement?—A. Those figures will be correct.

Q. Yes. 15 per cent on last year's list on tennis?—A. Yes.

Q. On rubber footwear for the present season the discounts are the same as in the case of tennis footwear?—A. Yes.

Q. Last year your discount to group A was 14 per cent; to group B 11 per cent; to group C 8 per cent and to group D 6 per cent?—A. Yes.

Q. And then, in addition to these discounts what other discounts are allowed to group A?—A. Well, there is a sliding scale of bonuses on volume which is recorded there over a certain amount.

Q. And this is your scale for volume; customers' bonus for volume, customers purchasing over 250,000 annually—from 250,000 up to 500,000, 1½ per cent on the excess over 250,000?—A. I believe that is 1 per cent now.

Q. This says 1½ per cent?—A. Is that tennis or what?

Q. This is tennis and rubber footwear?—A. Yes.

Q. 1½ per cent. Customers purchasing 500,000 up to 750,000, 1½ per cent on the excess over 500,000; customers purchasing 750,000 to 1,000,000, 1½ per cent on the excess over 750,000. Customers purchasing a million or over, 1½ per cent on the excess over a million. That would be a total of 6 per cent to the customers purchasing a million or more?—A. Only on the last part of it.

Q. Yes. Then your bonus for unlisted accounts—with reference to the bonus for rubber footwear for the present season you allow 1 per cent instead of 1½?—A. Yes.

Q. And in the case of rubber footwear that is ½ per cent less than you allowed last year all the way down the line?—A. Yes.

Q. Then, the bonus for volume of unlisted accounts. You have, I see, purchases of \$500 to \$999 and the rate is 1 per cent; \$1,000 to \$2,499 and the rate is 2 per cent; \$2,500 to \$4,999 and the rate is 3 per cent; \$5,000 to \$9,999 and the rate is 4 per cent; \$10,000 to \$14,999 and the rate is 5 per cent; \$15,000 or over, and the rate is 6 per cent. What do you mean by that?—A. Those are the dealers where they are too numerous to list. They run into the thousands.

Q. Do you mean the page is too short, or the willingness of the association?—A. Not at all. We would be perfectly pleased, sir. We will give you files, thousands of dealers.

Q. Oh, no, no. These are the retail dealers?—A. The retail dealers.

Q. Right across the country?—A. Right across Canada.

By Mr. Factor:

Q. They are not contained in these groups A, B and C?—A. They are not large enough to put in these groups.

Q. What is the principle you apply before you list a dealer?—A. He has to buy—after he buys over \$20,000 I believe, he goes into—but these listings are made absolutely on the basis of the savings we have made.

Mr. SOMMERVILLE: Mr. Eden, how do you arrive at these groupings and A, B, C and D?

The WITNESS: By volume purchases.

Mr. SOMMERVILLE: Now, what is the volume purchase required to get into class D—the lowest class?

The WITNESS: I would like to have the secretary answer that.

Mr. FACTOR: I thought the volume controlled.

The WITNESS: It does in the lower brackets.

Mr. EDWARDS: That is the combined buying?

The WITNESS: The combined buying from any Canadian company.

Mr. SOMMERVILLE: What is the volume required to get into group D?

The CHAIRMAN: We had better swear Mr. Badden.

H. J. BADDEN, called and sworn.

By Mr. Sommerville:

Q. To get into class D, Mr. Eden, one must sell $20,000 worth; must buy from the association members $20,000 worth of footwear; is that right?—A. Yes, sir.

Q. And that means if you buy $20,000 worth from the whole group you do not have to buy it from one merchant?—A. No, anyone, or from all of them.

Q. And if you did that you got a discount of 6 per cent?—A. Yes.

Q. And that is to encourage volume buying. You increase the discounts with the increased volume?—A. Oh, yes, quite.

Q. Now, then, what is the minimum amount of purchase required to get into class C?

Mr. BADDEN: $20,000.

Mr. SOMMERVILLE: $20,000 to get into class C?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: That is the same as D?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: And if you are in class D then you get 8 per cent?

Mr. BADDEN: If you are in class C.

Mr. SOMMERVILLE: What is the other inducement that is to be held out to get into class C?

Mr. BADDEN: You are asking me?

Mr. SOMMERVILLE: Yes.

Mr. BADDEN: There is no inducement; class D is a co-operative group.

Mr. SOMMERVILLE: Class D is a co-operative group?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: Are there many in that group, or are there only one or two?

Mr. BADDEN: Three or four, I believe—about four I think.

Mr. SOMMERVILLE: Now, class C is the same volume of capacity and they get 8 per cent?

Mr. BADDEN: Yes, sir.

Mr. SOMMERVILLE: What volume is required in class B?

Mr. BADDEN: $38,000—$35,000.

Mr. SOMMERVILLE: That is to say, if you have $35,000 worth of goods then a discount of 10 per cent is allowed?

Mr. BADDEN: Yes, sir.

Mr. SOMMERVILLE: Then, what is the requirement to get into class A?

Mr. BADDEN: $75,000. Do you want the names?

Mr. SOMMERVILLE: Yes, please.

Mr. BADDEN: Agnew-Surpass Shoe Stores, Dupuis Freres, Limited, Montreal, T. Eaton Company, Hudson Bay Company, J. B. Lefebvre, Robert Simpson Company, Army and Navy Department Stores and Neighbourhood Stores Limited.

Mr. SOMMERVILLE: When did Army and Navy Stores and Neighbourhood Stores Limited move up from class B to class A?

Mr. BADDEN: This year.

Mr. SOMMERVILLE: Purely on volume?

Mr. BADDEN: Yes, sir.

Mr. SOMMERVILLE: And you say that the only requirement for getting into class A is the volume of $75,000 or more?

Mr. BADDEN: Yes, sir.

The WITNESS: No, excuse me—

Mr. BADDEN: Except co-operative buying.

By Mr. Sommerville:

Q. Mr. Eden, suppose a co-operative group wanted to buy from you $200,000 worth of shoes in rubber footwear in a year, that would be a volume that you would desire?—A. Yes, sir, we would.

Q. Why would not you give them the same 12 per cent that you give to the Hudson Bay Company or Lefebvre or Dupuis Freres?—A. On the basis, sir, that unless a company can relieve us of expense they are not entitled to a discount.

Q. What do you mean by unless they can relieve you of expense?—A. With the co-operative you have to put your travellers on the road; you have to go out and write the amount; you have to ship them in individual shipments and the only thing they do is guarantee the credit.

Q. That is rather an essential thing, is it not?—A. I do not know.

Q. Is not that a very essential thing, Mr. Eden?—A. I would sooner have a group of a few thousand merchants than have some of the guarantees you would get from the co-operatives.

Q. Now, let me see, in this class we will take the York Trading Company; that is rather a responsible organization, is it not?—A. I believe so.

Q. If the York Trading Company offered you business of $200,000 guaranteed payment, would you refuse them 12 per cent?—A. I cannot say offhand. I would like to look at their statement. I do not know.

Q. Now, you know the principle that actuates you, that dominates; you have had it up before your association?—A. I would not give the York Trading Company $250,000 credit.

Q. Why not?—A. I do not think their assets warrant it.

Q. Well, they have paid you, have they not, or your association as much as $250,000 or $300,000 a year, have they not?—A. Yes, sir.

Q. Well, why on the business for which they paid you cash $250,000 or $300,000 a year—why not put them in the same position as Lefebvre Brothers, we will say, who, I fancy did not buy two or three hundred thousand?—A. You would have the travellers' expenses in canvassing that would run anywhere from, I would say, 5 to 8 per cent to canvass the York Trading Company's accounts. You would have something else—I would think to canvass the Lefebvre account of one-half of 1 per cent.

Q. You have your travellers on the road anyway canvassing independent dealers?—A. No, we give a traveller a full day's job. We route those travellers. Every place they go takes time. It is a mistaken idea. Some people think because our traveller is in the town he can call at two places at the cost of one. It cannot be done.

Q. Do you say it is double the cost?—A. No, but take that type of business, calling more or less on the retail trade, travellers' expenses will average in Canada more than 7 per cent. Lefebvre will take carload lots; York trading, small shipments to small individuals.

Q. If the York Trading Company took the shipment into their own warehouse and distributed the goods themselves would you give them the 12 per cent? Why hesitate?—A. Well, if they maintained prices, but we were not interested in that type of business.

Q. You are not interested in that type of business; why not? You are looking for volume.

Mr. ILSLEY: The answer is no.

The WITNESS: If that does not relieve us of the expense we cannot afford, our price is such; we cannot give discounts unless we get rid of some expense.

By the Chairman:

Q. Yes. But, Mr. Eden, Mr. Sommerville's question was if a given concern offered you the business delivered in their warehouse, limiting your expenses to which you referred, would you sell them; is your answer "No" —which I understand it is—you have not said so?—A. It might, or it might not be, sir. I doubt very much if our company would take it.

Q. Let me put this to you: the retailer in the country finds himself confronted with an extraordinary form of competition, namely the large distributor such as the department store, and he finds that the department store is able to sell your goods—the identical goods—at cost, and in some cases below what he can buy at?—A. Not our goods, sir.

Q. I am talking about the goods which you represent, rubber goods?—A. I doubt it very much.

Q. We have evidence here to that effect?—A. You mean in Canada.

Q. Yes, but we will not quibble over that; sold at prices he cannot compete with, was the term. Now, they are forced to get together in self defence, and they get together and they try to buy in carload lots so as to meet your volume requirement, and you won't sell them. Now, why?—A. We cannot give a discount where we do not eliminate expenses.

Q. You do eliminate expenses with them, they get together and order in volume. Don't forget this, Mr. Eden, you gave evidence here definitely that the principle upon which your discount is fixed is on volume?—A. Yes, sir.

Q. A group of retailers get together and give you volume.

Mr. FACTOR: Have them shipped to a central warehouse.

The CHAIRMAN: Yes, have them shipped to a central warehouse. Now, they have met your requirements, but you will not give them what you would give to a big department store on your Class A list. In fact, the difference is 14 per cent; or, if you take Class D it is the difference between 14 per cent and 6 per cent, or 8 per cent.

Mr. BADDEN: Pardon me, the big trade get an extra 2 per cent.

The CHAIRMAN: I am not talking about the big trade at the moment, I am talking about another group.

The WITNESS: Any group can get, and co-operative group that bought that quantity would immediately go into this 6-and-2 per cent.

Mr. SOMMERVILLE: Yes, but then if they bought $500,000 worth, they would not get into the 14 per cent class.

By the Chairman:

Q. On what basis do you fix that Class A? You have told us it is on volume, and when we put to you the question which has been laid before this committee in evidence from the retailers, you say, no you can't do it. Now, I ask you, on what condition do you fix this Class A discount of 14 per cent? —A. Volume, I suppose, is the main thing—

Mr. FACTOR: That is not answering the question. Supposing Mr. Young, Mr. Ilsley and I group ourselves together and buy $100,000 worth of rubber footwear, and ask you to ship it to a warehouse; would you put us in Class A and give us 14 per cent.

Mr. SOMMERVILLE: You would put in Class B.

Mr. FACTOR: Why not in Class A, if volume was the only consideration?

The WITNESS: It is volume, and method of doing business.

Mr. FACTOR: I know, but we are eliminating your extra expense of doing business by having you ship it to a warehouse. You have no traveller's expenses. We come to you with an offer for $100,000 worth of footwear. Now, what is the extra expense. There is no expense for travellers. Why are we not entitled to go into Class A.

The WITNESS: I do not know what the action of the other companies would be, we would not take that business.

Mr. FACTOR: Why not, if volume is the only consideration.

By Mr. Edwards:

Q. Is volume the only consideration?—A. No, the stability of your customers.

By Mr. Kennedy (Peace River):

Q. We are paying cash, I do not see what stability has to do with it.—A. I never had that experience.

Mr. YOUNG: What do you mean by saying the stability of your customers?

By the Chairman:

Q. You know, Mr. Eden, there are hundreds of retailers throughout this country that have been doing business with your several firms for ten or twenty years, first class accounts, no question of payment, no risk other than ordinary risks; and yet if a group of them got together and wished to buy collectively in order to give you volume and eliminate the cost of travellers and so forth, you won't sell them; and yet you expect them to distribute your goods in competition with your Class A list who are preferred, without any saving made in additional cost over what these others would be. Is that a fair way of treating your retail customers?—A. If they picked out an isolated customer in this town, and another isolated customer in another town, that does not relieve us of travelling expenses.

Q. I am not talking about isolated cases. Take Calgary, for instance, you send Class A goods there, and you send the same kind of goods to Regina, or Edmonton, or Toronto, or Montreal, or other places that you send to. Your travellers still go to these towns all over the country and you do not eliminate travelling because you sell one person on a Class A list. Now, if another group comes along and places a similar volume, you will not sell them?—A. No. But I would like to see the whole trade of the country organized so you could cut down this expense, sir; I would be tickled to death to do it.

Q. Why do you give one class of distributor a 14 per cent advantage over the other? Can the other fellow live? I ask you as a business man, and as a manufacturer, can the distributor live with a handicap of 14 per cent?—A. You mean the retailer?

Q. The retailer?—A. I think the closest spreads I know of, Mr. Stevens, on any line of merchandise being distributed in Canada are these footwear spreads. I think he could live, yes.

Q. I do not, not on 14 per cent spread?—A. Yes, sir. That is the lowest I have ever seen it. It is the lowest I know of on any general line of merchandise being distributed, the spread between the big account and the small account. It is the lowest of any kind of merchandise I know of being distributed.

By Mr. Sommerville:

Q. That is the very finest evidence we have had so far that the retail merchant is under a very much worse handicap than has yet been disclosed to us. Do you say yours is the lowest?—A. It is the lowest I know of, sir.

Q. Tell me this, Mr. Eden, will you swear that everyone in the Class A group that you have mentioned has bought during the last year $75,000 worth or more of merchandise?—A. From the records that Mr. Badden submits to me; he is the man who made the audit, I did not.

Mr. BADDEN: I would swear to that, yes, sir.

Q. In your class A is there any other consideration than this volume that gets 14 per cent in the Class A?

Mr. BADDEN: Not that I know of.

Mr. EDEN: There is not.

Q. Now, let us have Class B, the names of the persons in Class B; there is the Woodward Store, Vancouver.

Mr. FACTOR: This is another illustration of the making of laws outside of parliament, we will have a lot of this.

Mr. BADDEN: Class B: O. Berriere, Montreal; J. Beaudin, Montreal; B. E. Belarose, Montreal; Brikovitsky Limited; Central Supply Warehouse, Toronto; Merchants Consolidated Limited, Winnipeg; R. Neil, Peterborough; Paquette Company Limited, Quebec; Pollock Shoes Limited, Toronto; Segal Shoe Stores Limited, Hamilton; David Spencer, Limited, Vancouver; Vancouver Boot and Shoe Company, Vancouver; Woodward Stores Limited, Yellow Sample Shoe Stores, Zellers Limited—that is all.

Q. When did Zellers Limited of Montreal, and R. Neil Limited of Peterborough move up from Class C?

Mr. BADDEN: This year.

Mr. FACTOR: Who is the Central Supply Warehouse?

Mr. BADDEN: I do not know who they are.

Mr. FACTOR: Is that the organization that supplies the Provincial government in connection with their relief work.

Mr. BADDEN: I do not know who they are.

Mr. FACTOR: Do you mean to tell me you don't know who your customer is.

Mr. BADDEN: It is not my customer.

Mr. FACTOR: Is that the organization that Mr. Sparks is at the head of?

Mr. BADDEN: I don't know.

Mr. FACTOR: Who would know?

The WITNESS: It is not our account. I don't know.

Mr. SOMMERVILLE: The members of the association that are selling at their discounts ought to know their customers, I would think.

The WITNESS: We will get that information. We will find out.

Mr. SOMMERVILLE: Mr. Eden, Woodward's Stores, Limited, would not buy a volume exceeding $75,000 in a year?

Mr. BADDEN: They didn't last year, apparently.

Mr. SOMMERVILLE: Well, the year before?

Mr. BADDEN: They may have the year before.

Mr. SOMMERVILLE: They have never been in class A?

The WITNESS: They have never had the qualification.

Mr. SOMMERVILLE: Never qualified?

The WITNESS: No.

Mr. SOMMERVILLE: That is, they never had the volume?

The WITNESS: Never had the volume.

Mr. SOMMERVILLE: David Spencer, Limited, never had the volume to qualify for class A?

The WITNESS: No.

Mr. SOMMERVILLE: What is the qualification for class B, $35,000?

Mr. BADDEN: $35,000.

Mr. SOMMERVILLE: Do you say that all the people who are in class B bought $35,000 worth of shoes last year—rubber footwear?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: Were there any persons who bought from you last year $35,000 worth of footwear that are not class B?

Mr. BADDEN: Nobody except the co-operatives.

Mr. SOMMERVILLE: I observe that you have Neil, Limited, of Peterborough, on that list?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: And he is in the same position as Woodward's Stores of Vancouver and David Spencer of Vancouver?

The WITNESS: He runs a string of shoe stores through the province of Ontario. He is not just located in Peterborough.

Mr. SOMMERVILLE: A chain store. When you sell to chain stores, don't you ever go to the various stores and see what their supplies are?

The WITNESS: No. They all come in through a central purchasing house.

The CHAIRMAN: You distribute direct to each store?

The WITNESS: In some part of the year; other times you ship to a main warehouse.

Mr. SOMMERVILLE: Who are in class C?

Mr. BADDEN: Bryson & Graham at Ottawa; Cut Rate Shoe Stores, Hamilton; A. J. Freiman, Ottawa; R. T. Holman, Limited, Summerside; Henry Morgan & Company, Montreal; Pattenick & Company, Toronto; J. G. Watson, boots and shoes, Montreal; Syndicate Stores, Quebec, Limited, Quebec; S. & A. Chain Stores Limited, Hull.

Mr. SOMMERVILLE: What is Syndicate Stores, Quebec; is that a co-operative?

Mr. BADDEN: Not that I know of.

Mr. SOMMERVILLE: What are they?

Mr. BADDEN: I understand it is an individually owned concern.

Mr. SOMMERVILLE: Those are all the firms that bought $20,000 or more of shoes from your firm or from the various firms, from the group?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: Except the co-operatives?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: Let us see this select class of co-operatives. Who do they include?

Mr. BADDEN: Association Grocers at Calgary; Marquis Chain Stores, Regina and Saskatoon; Merco Wholesale, Limited, Edmonton; Western Grocers, Limited, Winnipeg; York Trading Company, Toronto.

Mr. SOMMERVILLE: Last year the Merchants Consolidated moved up from class D to class C.

Mr. BADDEN: The Merchants Consolidated are not a co-operative, are they?

Mr. SOMMERVILLE: Well, you have them in class B.

The WITNESS: Well, if they went up, their volume justified them in going up from one group to another.

By Mr. Sommerville:

Q. Now, Mr. Eden, we had evidence given here that in the year 1931 two of the members of your association did supply rubber footwear to the Mutual Stores, payment for which was guaranteed by the York Trading Company and in respect of which they were given the discount which their volume justified them in getting. Do you know that?—A. I know they were sold. I don't know what the discount was.

Q. What discount do you believe they were sold at?—A. I have not the faintest idea.

Mr. SOMMERVILLE: Perhaps the secretary can tell us.

Mr. BADDEN: No. This organization was not in existence then. I have not any record.

Mr. SOMMERVILLE: It was not in existence. It was during the period of transition. It had been in existence before that, had it?

Mr. BADDEN: I don't know anything about it.

Mr. SOMMERVILLE: When did it come into existence?

Mr. BADDEN: January, 1932.

Mr. SOMMERVILLE: Yes, January, 1932; and in January, 1932, it has been sworn that when this organization you say came into existence, these men came to the Mutual Stores and stated: We are very sorry that we cannot sell to you on the discounts that we allowed last year, because the association won't let us." Is that true?

Mr. BADDEN: I don't know. I don't know what was said to them.

Mr. SOMMERVILLE: Weren't you at the meeting, Mr. Badden?

Mr. BADDEN: No, sir.

Mr. SOMMERVILLE: Were you at a meeting at which Mr. Kaufman explained to the members of the Mutual Stores why they could not?

Mr. BADDEN: I was at a meeting, yes, where he discussed the matter with them.

Mr. SOMMERVILLE: What was he discussing?

Mr. BADDEN: Their discounts.

Mr. SOMMERVILLE: What discounts was he discussing?

Mr. BADDEN: Various figures that they wanted.

Mr. SOMMERVILLE: What discount was mentioned at that meeting as the discount allowed the previous year?

Mr. BADDEN: I don't remember, sir.

Mr. SOMMERVILLE: Did Mr. Kaufman not bring you in to bear out the statement that the association would not allow them to sell to these Mutual Stores?

Mr. BADDEN: I don't know why Mr. Kaufman brought me in.

Mr. SOMMERVILLE: Didn't he explain to them in your presence that that was the object, that he brought you in to bear out his statement that it was not his statement alone, but you were the secretary of the association?

Mr. BADDEN: I think he wanted me to hear their remarks.

Mr. SOMMERVILLE: And you heard his?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: Yes. And didn't he say to the members: "The reason I can't is because Mr. Badden holds my bond."?

Mr. BADDEN: I don't recall.

Mr. SOMMERVILLE: Well, do you hold his bond?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: The bond of how many members of the association?

Mr. BADDEN: Every one of them.

Mr. SOMMERVILLE: What is the amount of the bond?

Mr. BADDEN: It varies.

Mr. SOMMERVILLE: Was his bond $10,000?

Mr. BADDEN: No.

Mr. SOMMERVILLE: What are the amounts of the bonds, the variation?

Mr. BADDEN: They vary from $10,000 to $75,000.

Mr. SOMMERVILLE: From $10,000 to $75,000?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: And those bonds are given by the rubber footwear manufacturers?

Mr. BADDEN: Yes, sir.

Mr. SOMMERVILLE: Why this bond of $75,000? What is that for?

Mr. BADDEN: As a guarantee of good faith.

Mr. SOMMERVILLE: Good faith in what?

Mr. BADDEN: The association's arrangements.

Mr. SOMMERVILLE: The association's arrangements. Well, these are all reputable merchants who have been carrying on business for a long time. Why insist on a bond for good faith?

Mr. BADDEN: You heard Mr. Carlisle say that these things never work out.

Mr. SOMMERVILLE: And this is a guarantee that something will work out?

Mr. BADDEN: We hope so.

Mr. ILSLEY: Have you the bond?

Mr. SOMMERVILLE: Will you be good enough to tell me the amount of the bond of each of the members of the association?

Mr. BADDEN: Yes. Canadian Goodrich Company, $20,000; Gutta Percha & Rubber Limited, $20,000; Dominion Rubber Company and its subsidiaries, $25,000.

Mr. SOMMERVILLE: You are in the preferred class, Mr. Eden.

The WITNESS: It would seem so.

Mr. BADDEN: Kaufman Rubber Company, $20,000; Northern Rubber Company, $20,000; Miner Rubber Company, $20,000; Woodstock Rubber Company, $15,000; Acton Rubber Company, $10,000.

Mr. FACTOR: Have you got a copy of the bond?

Mr. BADDEN: There is not any bond. It is cash.

Mr. SOMMERVILLE: Oh, it is cash?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: That is better still. The bonds are called.

Mr. FACTOR: Deposited with whom?

Mr. BADDEN: With us.

Mr. SOMMERVILLE: Who do you mean by "with us"?

Mr. BADDEN: Hardy & Badden.

Mr. SOMMERVILLE: At Toronto?

Mr. BADDEN: Yes.

The CHAIRMAN: It is no wonder they find them difficult to manipulate, class A.

Mr. FACTOR: Under that agreement, Mr. Badden?

Mr. BADDEN: Yes.

Mr. FACTOR: Where is the copy of the agreement?

Mr. BADDEN: I have it here.

Mr. FACTOR: Will you file it with the committee?

Mr. BADDEN: I will have to file my original minute book. I can send a copy.

Mr. SOMMERVILLE: I think we will have that minute book. You won't need it for a little while. We will send it back to you.

Mr. FACTOR: What are the essential terms of the agreement?

Mr. BADDEN: What do you mean?

Mr. FACTOR: What are its terms? What are the conditions of making the deposit? What does the man have to do? How does he have to behave?

Mr. BADDEN: To carry out the various arrangements that are entered into.

Mr. SOMMERVILLE: What arrangements are entered into, as to price?

Mr. BADDEN: As to price, standardization.

Mr. SOMMERVILLE: There is standardized price?

Mr. BADDEN: Standardization of goods.

Mr. SOMMERVILLE: Of goods?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: First of all there is standardization of goods?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: And the price agreed upon is standardized?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: Then one member can't depart from that standard without submitting his suggestions to the association?

Mr. BADDEN: Yes.

Mr. SOMMERVILLE: And if one member desires to manufacture a certain line then the other members must be made aware of it and agree upon that.

Mr. BADDEN: Yes, sir.

Mr. SOMMERVILLE: And then any member may manufacture the same line.

Mr. BADDEN: Yes, sir.

Mr. SOMMERVILLE: So that there is, in that respect, standardization of lines?

Mr. BADDEN: Yes, sir.

Mr. SOMMERVILLE: Now then, is there a standardization of price for these standard lines?

Mr. BADDEN: Yes, sir.

Mr. SOMMERVILLE: And that price is agreed upon among the members of the association?

Mr. BADDEN: Yes.

Mr. FACTOR: That is the price at which they are to sell.

Mr. SOMMERVILLE: That is the price at which they are to sell the goods to the jobber.

Mr. BADDEN: Yes, to anybody.

Mr. EDEN: That is the list price.

Mr. SOMMERVILLE: That is what you call your list price?

Mr. BADDEN: Yes, sir.

Mr. SOMMERVILLE: And from that list certain payments are agreed upon?

Mr. BADDENS Yes, sir.

Mr. FACTOR: And also a price that the retailer has to get for it.

Mr. BADDEN: No, sir.

Mr. FACTOR: That is not the case?

Mr. BADDEN: No, sir.

The CHAIRMAN: We will now adjourn to meet at 3.30.

The committee adjourned at 12.55 to meet again at 3.30 p.m.

AFTERNOON SITTING

The Committee resumed at 3.30 p.m.

The CHAIRMAN: Order, gentleman.

We will continue with the same witnesses we had this morning.

Examination of Mr. W. A. Eden, and Mr. H. J. Badden, resumed.

By Mr. Sommerville:

Q. At adjournment we were dealing with the question of association that exists, and the basis of this association. Now, let me understand it, in addition to fixing the price among the members of the Association I understand you also fix the quota of business for each member of the association?—A. Yes, sir.

Q. If you will just speak up so the reporter can hear you?—A. Yes.

Q. And the last quota fixed was apparently on the 5th April, 1934, at a meeting; and I read this resolution: that the new pool percentages effective January 1, 1934, are confirmed as follows: Dominion Rubber Company Limited, 38·92 per cent; Gutta Percha Rubber Limited, 11·29 per cent; Kaufman Rubber Company, 10·58 per cent; Miner Rubber Company, 10·62 per cent; Northern Rubber Co., Ltd., 9·91 per cent; Canadian Goodrich Company, 9·16 per cent; Woodstock Rubber Company Limited, 6·78 per cent; and the Acton Rubber Co., Limited, 2·74 per cent—a total of 100 per cent. That constitutes the whole volume of business as filed, is that right?—A. Yes, sir.

Q. And if any one member sells more than his quota, what happens?—A. He pays into the pool 25 per cent of his excess.

Q. He pays into the pool 25 per cent excise?—A. No, excess.

Mr. YOUNG: You might as well call it an excise tax.

By Mr. Sommerville:

Q. And then that 25 per cent forms the pool fund?—A. Yes.

Q. Now, let me see; that amount was increased, was it not, by 15 per cent? Page 120 of the minute book contains this resolution: Resolved that the resolution covering the additional pool tax as passed at the meeting held on November 8, 1933, is amended by adding, "shall only apply on the new season's list;" making the resolution now read: "that the resolution passed at a meeting held October 26, adding 15 per cent additional pool tax for all goods shipped at former prices after the new list was in effect shall apply only on the new season tennis list." Does that mean there is 40 per cent paid?—A. No.

Q. What does it mean?—A. It means that orders which are not shipped after a certain date, if there is a price increase, take a certain tax.

Q. But this says— —A. An additional tax.

Q. Additional?—A. That is to prevent any company where there is an increase in material, and it is evident that there is to be an increase in price, going out ahead of time and taking unfair advantage of the industry, writing up a lot of business ahead of time. If they do that, there would be an extra tax on it.

Q. I do not get that yet, Mr. Eden. They would in any event pay 25 per cent if they sold more than their quota; then you say they would pay 15 per cent excess over the quota?—A. Yes.

Q. What does this mean when it says 15 per cent additional pool tax?—A. That would be 40 per cent.

Q. On new season tennis list. This additional 15 per cent is for all goods shipped at former prices after the new list is in effect?—A. Yes.

By the Chairman:

Q. This is similar to the Cartel system in Europe?—A. Exactly the same, the same general principle.

By Mr. Heaps:

Q. Your quota system applies for domestic consumption?—A. Just for domestic, yes.

By Mr. Sommerville:

Q. In addition to fixing the quotas in this way, I observe this resolution on the 6th April, 1934: "That no addition shall be made by any member to either the consignment jobbers' list or the ordinary jobbers' list without having first obtained the approval of members of the association." Does that mean that a manufacturer could not add anyone to his jobbers' list or to his consignment list without getting the approval of the other manufacturers?—A. In effect, yes.

Q. That is it?—A. Yes.

Q. And then, is it also a fact— —A. Now, let me explain this consignment jobber list. They act in lieu of branches in some cases. If a member company of the association have a branch the smaller company will have a jobber, and he consigns his merchandise, and he performs all the functions of a branch for the small company. You could not have them jumping all over the lot from one day to the other. It is an orderly basis of keeping together, and knowing what the other fellow's basis is.

Q. That refers to consignment jobbers, this resolution applies to all jobbers, so it does not matter whether they are performing that service or not, no jobber can be appointed by any one without the consent of all?

By Mr. Factor:

Q. Do you limit the number of jobbers?—A. They are fast disappearing, like other lines of business.

By Mr. Sommerville:

Q. Are you encouraging them to remain in the business or to disappear?—A. Unfortunately, we are the tail of the dog, and the leather shoe people—who were the big suppliers—when the leather shoe people went direct to the retailer that was the death-knell of the jobber. Rubber goods are probably only 20 per cent of sales in shoe stores, the big item is leather shoes, they are sold by the leather shoe manufacturer direct, and it has just been a continuous list of failures for the last twenty years.

Q. You have been closing out jobbers yourselves regularly and consistently, have you not?—A. Oh well, we have.

Q. And your association encourages that?—A. It gets down to more economical merchandising, and gives the public of Canada cheaper merchandise. We have cut out all the waste we could find in our industry.

Q. Yes. Then from time to time your association meet, and then after the list is out you may decide to increase the price?—A. It is subject to change without notice, but invariably we go through a season without a change of price. Our tennis season is from September to September and our waterproof season is from March to March.

Q. I observe here that on April 7th—?—A. That is our new season's prices, covering this. We hope, if it is possible, to run these prices up to March of next year.

Q. This is April?—A. That is when we go out selling goods for Fall delivery.

Q. I observe that this resolution is adopted: that effective forthwith the list price on all rubber footwear shall be advanced 3 per cent, with the exception of rainettes, on which a new price will be issued, the price committee to figure out the list price on the above basis. Now, is that an addition to the existing list price?—A. Yes.

Q. And is that additional to the new list price which has generally prevailed since March?—A. There were no new list prices in March, as all the articles on last year's prices went right through the season.

Q. This is in April of 1932?—A. 1932—no, we would not have a change in March of all that difference. That probably was including the new sales tax.

Q. April of 1932?—A. Yes, I think footwear went from 3 to 6, or from $1\frac{1}{2}$ to 6.

The CHAIRMAN: From 3 to 6; it was $1\frac{1}{2}$ for a while. It was $1\frac{1}{2}$, then it was 4 per cent sales tax, and then the 4 per cent was increased to 6 per cent.

The WITNESS: That was just covering the sales tax, Mr. Sommerville.

Mr. SOMMERVILLE: Yes, now then on the business of the association I observe that you file this statement which should be read into the record, showing your basis of discounts for tennis footwear, and rubber footwear for the present season. We will not enter the rates for the last season.

The CHAIRMAN: That statement will be taken into the record at this point.

LIST OF RUBBER FOOTWEAR SALES

The total sales of the manufacturers in the twelve months ending February 28th, 1934, amounted to \$9,816,811.38. This was divided into class accounts as follows:

"A" List	\$2,687,580.25	27·377%
"B" "	745,979.10	7·599%
"C" "	123,481.20	1·258%
"D" "	448,097.65	4·565%
		40·799%

Sales to accounts earning bonuses as follows:

6%	\$430,933.00	4·390%
4½%	223,020.00	2·272%
3%	547,339.00	5·576%
2%	724,430.00	7·379%
1%	1,183,154.00	12·052%
	\$3,108,876.00	31·669%

Sales to accounts not earning bonuses.. ...	2,702,797.18	27·532%
	9,816,811.38	100·00%

Sales to all jobbers are included in the above figures.

TENNIS FOOTWEAR—PRESENT SEASON

Discounts to Listed Accourts:—

A..	12%
B..	10%
C..	8%
*D..	6%

*York Trading Company Limited appearing on this list receive an extra 2 per cent at end of bonus year.

Discounts to Jobbers:—

Where the account is carried by the manufacturer instead of the jobber, 7½ per cent commission to cover cost of selling.

Where jobbers sell on a 7½ per cent commission basis the maximum rate of bonus to be paid by the manufacturer to any one account sold by this commission jobber shall be 3 per cent, any further bonus due the customer shall be paid by the manufacturer and deducted from the jobber's commission.

Commencing March 1, 1934, where the account is carried by the jobber direct 12 per cent commission and a further one per cent bonus at the end of each bonus year, from which the jobber must pay any bonuses due to his own customers on his own sales. Prior to March 1, 1934, payment of bonus earned by jobbers' customers was optional with the manufacturers.

Where the jobbers are located at branch points and carry goods on consignment for one manufacturer, and have exclusive representation and territory, for that same manufacturer, they shall be allowed a discount or commission of 12 per cent for selling and carrying the account, and a further allowance of 5 per cent to cover handling when the goods are shipped from consignment stock, making a total commission or allowance of 17 per cent on goods shipped from consignment stock.

Sales by jobbers carrying consignment stocks to listed accounts shall be invoiced in the name of the manufacturer, and the maximum commission to be allowed to such jobbers selling listed accounts instead of the regular jobbers' discounts or commission shall be as follows:

Sales to the "A" List, 3 per cent.

Sales to the "B" List, 4 per cent.

Sales to the "C" and"D" Lists, 5 per cent.

and in addition to the above commissions shall be allowed the usual 5 per cent to cover handling when goods are shipped from consignment stock.

Bonus for Volume—Customers purchasing over $250,000 annually.

Over—

$ 250,000	and up to $ 500,000,	1½ per cent on excess of	$ 250,000
500,001	and up to 750,000,	1½ per cent on excess of	500,000
750,001	and up to 1,000,000,	1½ per cent on excess of	750,000
1,000,001	and over,	1½ per cent on excess of	1,000,000

Bonus for Volume—Unlisted—Accounts Purchases of—

\$ 500 to \$ 999—Rate..	1 per cent
1,000 to 2,499—Rate..	2 per cent
2,500 to 4,999—Rate..	3 per cent
5,000 to 9,999—Rate..	4 per cent
10,000 to 14,999—Rate..	5 per cent
15,000 and over —Rate..	6 per cent

RUBBER FOOTWEAR—PRESENT SEASON

Discounts to Listed Accounts:—

A..	12 per cent
B..	10 per cent
C..	8 per cent
*D..	6 per cent

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Where the account is carried by the jobber direct 12 per cent commission and a further 1 per cent bonus at the end of each bonus year, from which the jobber must pay any bonuses due to his own customers on his own sales.

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Sales by jobbers carrying consignment stocks to listed accounts shall be invoiced in the name of the manufacturer, and the maximum commission to be allowed to such jobbers selling listed accounts instead of the regular jobbers' discounts or commission shall be as follows:—

Sales to the "A" List 3 per cent.

Sales to the "B" List 4 per cent.

Sales to the "C" and "D" Lists 5 per cent.

and in addition to the above commissions shall be allowed the usual 5 per cent to cover handling when goods are shipped from consignment stock.
Bonus for volume—Customers purchasing over \$250,000 annually.

Over

\$250,000 up to \$500.000, 1 per cent on excess over \$250,000

\$500,001 up to \$750,000, 1 per cent on excess over \$500,000

\$750,001 up to \$1,000,000, 1 per cent on excess over \$750,000

\$1,000,001 and over, 1 per cent on excess over \$1,000,000

Bonus for volume—unlisted accounts.

Purchases of

$500 to $999, rate 1 per cent.
$1,000 to $2,499, rate 2 per cent.
$2,500 to $4,999, rate 3 per cent.
$5,000 to $9,999, rate 4 per cent.
$10,000 to $14,999, rate 5 per cent.
$15,000 and over, rate 6 per cent.

Q. And further, you have given us a list of the rubber footwear sales as follows: Total sales of the manufacturers in the twelve months ending February 28, 1934, amounted to $9,816,811.38. This was divided into class accounts as follows: A list, $2,687,580.25 equal to 27·377 per cent; B list, $745,979.10, equal to 7·599 per cent; C list, a total of $123,481.20, equal to 1·258 per cent; and D list, $448,097.65, equal to 4·565 per cent. Your total is 40·799 per cent sold to these four groups on the list.

Then you set out sales to accounts earning bonuses are as follows: 6 per cent bonus on accounts amounting to $430,933 or 4·390 per cent; 4½ per cent bonus on accounts of $223,020 or 2·272 per cent; 3 per cent on accounts of $547,339 or 5·576 per cent; 2 per cent on accounts of $724,430 or 7·379 per cent; and 1 per cent bonus earned on accounts of $1,183,154 or 12·052 per cent. Total business upon which bonuses were paid was $3,108,876, equal to 31·669 per cent.

Then your sales to accounts which did not earn bonuses, I observe, amounted to $2,702,797.18 or 27·532 per cent, making the total sales of the group of members in the association, $9,816,811.38, equal to 100 per cent of your sales. Now, class D is the lowest class of listed accounts, and on that 6 per cent is paid generally. Yet I find that the volume for the limited number of persons in class D is $448,000 as against the volume of class C of $123,000, which draws 8 per cent. Why should that be, if volume means anything to you? Why do you penalize the volume in class D as against the volume in class C?—A. We don't sir. One is an individual account of from 20 to 35, and the other is from 35 to 75. It just happens there are more individuals.

By the Chairman:

Q. You gave us the list this morning. They are a little different from this year; but last year in class C you had four accounts and in class D you had four accounts. That is last year. That has varied this year?—A. It all depends. They just fall into the class or volume that fits them.

Q. But wait a minute— —A. There is something wrong. Either I don't understand your question, or else there is something wrong with those figures.

Q. Mr. Sommerville has just read out to you the sales in the classes, class C and class D for that year, to which those figures apply, which have four accounts. You recall that?—A. Yes.

Q. The question now is if the merchants in class D bought $448,000 worth of goods, are they not entitled to a larger discount on the volume basis than the four merchants or houses that handled $123,000 worth or less than a third of the volume? You said volume was your basis?—A. Not entirely. Volume and method of doing business.

By Mr. Sommerville:

Q. Well, we have the volume now. On the basis of volume, what explanation have you to make to this committee as to why you discriminate against the four customers who gave you $448,000 of business as against four customers that gave you $123,000, to the extent of 2 per cent discrimination? Why?—A. Well, their method of doing business is different.

Q. Do you want to get away from volume then?—A. That is the one place where we are away from volume.

Q. At one place you have it volume, and another place you have not got it volume. Which is it? Is volume a factor?—A. It is not entirely a factor, even with the co-operatives. But the co-operatives do not get the same volume, because they don't function in the same way.

Q. Here is your volume with the co-operatives, and there are four co-operative buyers in that year; they bought nearly four times as much as the four individual accounts in class C. Why discriminate against the co-operatives who want to live and want to compete with the big accounts?—A. I believe in that, one large co-operative got 6 and 2, I think he got 8, that you listed in that class.

Q. They got a bonus of 8 per cent, but they are entitled to a bonus in any event on volume, because your bonus is based on volume, and others got bonuses on volume. This is a discount that we are discussing now. Have you any explanation?—A. Well, it is the method of doing business.

By Mr. Factor:

Q. Does it cost you more to do business with four co-operatives than with four individuals?—A. Yes, we have to put your travellers on the road. You have got to go to the individual members right through.

By Mr. Sommerville:

Q. You have to put your travellers on the road for Zellers, Neil, Limited, and the others?—A. You make the one call for sixty places, interview one man and do business for the season. With these others, you have to put a flock of travellers on the road, and call on the individual merchants, write individual orders, make them up in small packages, ship them direct. It is a different type of business entirely.

By Mr. Ilsley:

Q. Is that always so? I thought they did some buying as a unit, these individuals?—A. I believe in certain lines of merchandise they can, but in footwear they have got individual patterns and sizes. You have got to have an experienced man to go into a shoe store and size up the sales. The sizes are broken. You have got to fill in. It is a different thing, I imagine, selling a bunch of groceries than it is selling a line of fashionable merchandise that runs into lasts, patterns and sizes.

By Mr. Sommerville:

Q. Yes, but you have got your lasts standardized, your patterns standardized?—A. Yes.

Q. A man can take a catalogue, and he can look at that catalogue and he does not have to look at the name of the catalogue because they are all the same. What is the difficulty about ordering these goods when you have got, every one of your firms, travellers out selling the same line of goods, the same quality, the same standard, the same price, to the same trade. If you want to cut down expenses, why not start there rather than on the merchant who wants to come in and compete with the big brother?—A. Well, I wish, Mr. Sommerville, that this line was as simple as you think it is. I don't know how many hundred models and lasts and patterns they have got to know. In the leather shoe business, they have got to go into the store and see what leather shoes the merchant has in stock, got to fit the overshoes and so on.

Q. I think you have done a fine thing in standardization?—A. By gad, I know we have.

Q. I think you have, and I see the necessity for it. But when you have standardization, what I am anxious to know is why you discriminate against these little fellows that are struggling to make a living, and why you discriminate to the extent you do?—A. I contend that we don't discriminate.

By the Chairman:

Q. Mr. Eden, this is perhaps one of the most important points of our inquiry, in this particular portion of it?—A. I appreciate that, and I wish I knew the answer. I wish to God I did.

By Mr. Sommerville:

Q. I will tell you the answer. You just won't sell to them?—A. If that was the answer, it would be simple and easy to tell you.

Q. Let me give you an illustration of it. You did sell to Mutual Stores and Kaufman and another firm too; and as soon as your organization came into existence with these deposits, they were cut off?—A. Oh, but let me tell you that the top discount was a great deal farther away from the York Trading discount in those days than it is to-day.

Q. I know that?—A. All right.

Q. And therefore the very much greater discrimination against the Mutual Chain Stores in those days than there is even to-day?—A. Yes; that was with disorganization and no association.

Q. When your association came into existence, you cut off these men who were struggling to compete with the big departmental and chain stores?—A. No, we put their price closer to the price of departmental and chain stores.

Q. 14 per cent was what their price was?—A. Before?

Q. Yes, 14 per cent.

The CHAIRMAN: Discount.

By Mr. Sommerville:

Q. 14 per cent was the discount to the big store and 6 per cent was the discount to the D class?—A. No—when you are talking about that they had this big discount, what discount did they get?

Q. You know. What did they get?—A. I didn't sell them. It is reported to me what discount they got; but I know what the class A man got and I know they got 40.

Q. 40 per cent?—A. Yes.

Q. The class A man got 40 per cent?—A. Yes.

By Mr. Factor:

Q. Before the organization was formed, do you say?—A. Yes.

By Mr. Sommerville:

Q. What did class B get?—A. I can't tell you, because pretty nearly everybody in Canada got a different discount, but they were 10 per cent at least away from their top discount, the York Trading Company, and they are closer to it to-day than they were before there was any organization.

By the Chairman:

Q. Can I put this question to you, Mr. Eden: That the large buyers in class A insist upon a discrimination against those, say, in class D?—A. No, sir.

Q. They do not indicate to you that they do not wish to have class D extended similar privileges?—A. No, sir.

Q. Well, you have not given us an explanation of why; because I confess frankly when you have an organization like this in class D, and in addition to

that a wide range of unorganized retailers who are forced to compete with this class A, and they are handicapped right off in many instances, by a straight 14 per cent plus some other bonuses and discounts, I don't know how you expect those distributors handling your goods to do so successfully?—A. Mr. Stevens, we have got the lowest spread in history between the small man and the big man.

Q. It must have been murderous before?—A. By gad, this thing has been going on for about twenty-five or thirty years.

Q. Oh, no?—A. It has not? By gad, it has, as far as any industry I am connected with is concerned.

Q. I would like to see that statement demonstrated?—A. A few years ago you had all these big fellows buying direct. You had the jobber servicing the small store. The jobber had an operating cost of 20 per cent, and he was making a profit.

Q. But there was more distribution through the jobbers then than there is now?—A. Yes.

Q. You are distributing direct?—A. The jobber had to mark up. The big operator bought as cheap or cheaper than the jobber, and the jobber had a 20 per cent operating cost which meant to get that he had to mark up 25 per cent over his purchase price, and he was making a profit, so you have a spread of over 30 per cent.

By the Chairman:

Q. Tell us what were your sales or the proportion of your sales on your A list five years ago, or seven years ago?—A. I would be pleased to give that to you. Mind you, the solution of this thing means a great deal to us. I could go back in our individual company. I have no association records. I would be pleased to send them to you.

Mr. Sommerville: Perhaps Mr. Badden could give us that.

Mr. Badden: No, I have nothing before 1932.

By Mr. Sommerville:

Q. I suggest to you as something that is well known in your association that for years back the buyers have been saying, "Unless you give us the spread in discount we will set up manufacturing ourselves;" you have heard that?—A. A good many times, sir. I have never heard that from the buyers themselves.

Q. It has come to you as one of the reasons why there must be a spread and you will not allow anybody to come within reach of the big fellows because of that danger?—A. Well, I think our spread there, sir, shows that that is not a fact.

Q. The spread speaks for itself?—A. You do not interpret the spread the same way I do then.

By the Chairman:

Q. Here is another reason that is suggested. One of your members justifies the large discounts to the class A group— —A. We call them moderate discounts.

Q. I call them large. When you get them altogether they are fairly large. One of your members would justify these discounts by suggesting that inasmuch as the overhead of the large retail distributing organization is much greater than that of his smaller competitor he is entitled to a larger rate of discount? —A. Yes, in saving costs you make a tremendous saving in your factory.

Q. No, you are getting me wrong. The point I mentioned is this: one of your members justifies allowing the class A group the large rate of discount

on the ground that his overhead—that the class A group distributors' overhead is much larger than his smaller competitor and therefore he is entitled to a larger discount?—A. I do not know.

Q. Have you heard any of your members argue that way?—A. I have never heard it.

By Mr. Sommerville:

Q. Have you had it advanced to your men by the large buyers as a reason why they must have larger discounts?—A. No, sir.

Mr. Ilsley: Who said that?

The Witness: I have never heard of that.

The Chairman: I have the name.

Mr. Ilsley: It does not appear in evidence yet.

The Chairman: It is information I have.

The Witness: I do not see that we can take the distributing costs of these stores and take that into our cost. We have to take our own cost.

Mr. Factor: Would you give us a little fuller explanation why the spread exists, in addition to the volume; apparently the volume alone is not the only governing factor.

The Witness: Except for co-operatives. We maintain these jobbing companies, our own branches—we have travellers out, and the co-operatives—if they have a jobber he is not maintaining the price. Now, they do their business. They cannot maintain the price. They cannot live. We endeavour to have some order.

By Mr. Sommerville:

Q. Oh. You endeavour to have some order. If that is so, then the firms to which you give the largest discounts should be the firms that would maintain prices; is not that right?—A. Well, now, if they are going to rob the consumers of Canada—

Q. No. The firms whom you are giving the largest discount to. If it is for the purpose of maintaining prices, they are the people who ought to maintain prices. You know they are the people that cut and cut?—A. I am talking about distributors, not retailers—where they go out and sell to the trade. We could not have a jobber out—we give a jobber a line of merchandise and we have a similar line ourselves. If we give him a price and he sells under us we might as well shut up shop.

By the Chairman:

Q. Those companies you sell direct to and give a preferred position to do more than cut the price?—A. Mr. Stevens, we set a price where we could sell every retailer in Canada at the same price; and take this tremendously high-priced business—we would not have their big account, and we would have them in the manufacturing business. Unfortunately, that is one of the problems that this committee is up against. If you can settle what you have started out to settle we will be the happiest people in the world.

Q. Now, you are coming to the reason. That is that these big class A fellows would go into the manufacturing business themselves?—A. If we ever proposed to equalize that between the smaller retailer and the big account in Canada that would be a reason for the big account—he could go into the business and there would not be anybody left, and then you would have a fine mess in this retail business.

By Mr. Sommerville:

Q. Let me put this to you. Suppose you say that this discount is based upon volume and the method of doing business?—A. Yes.

Q. Those are the two factors: one, the size of the order will warrant a bigger discount; and if you do not have to go around to all the stores you have a saving in your selling cost and that warrants the discount. Now, then, supposing this organization, Mutual Shoe Stores, came to you with an order for their entire supplies amounting to $250,000 which is considerably more than is necessary to get into class A and said, "We will take this into our own warehouse." You do not have anything to do but to sell to them and they will distribute it themselves. Would you let them in?—A. And they were able to maintain resale prices.

Q. Would you let them in on the 14 per cent?—A. If they could maintain retail prices.

Q. You do not exact that condition from Eatons?—A. We do it through the distributors.

The CHAIRMAN: You do not exact it from these class A people.

The WITNESS: We do through the distributors. They would be in the position of a jobber.

The CHAIRMAN: No.

The WITNESS: Yes, they would.

By Mr. Sommerville:

Q. What difference does it make to you?—A. It makes a big difference. We have a town of five customers; somebody picks up one of those customers and says, "Come in with me and I will share the discount" and that disrupts this town.

Q. You are selling all this stuff to the rest of the four, and you would be better off?—A. You have switched this thing over night.

Q. Yo do not want it switched.

By the Chairman:

Q. You place upon the co-operatives inhibitions that you do not place upon your class A list?—A. They do not function the same way. They would function as a sort of semi-jobber who cuts prices.

Q. The evidence we have had from scores of retailers or from those representing hundreds of retailers is that most of these class A list are the worst price cutters in the country?—A. Surely they sell to the customers, undoubtedly, cheaper than the small concern.

Mr. FACTOR: You are not concerned with that?

The WITNESS: They should. I do not think—

Mr. FACTOR: If they should, why should not the co-operatives that buy in large volume do the same thing.

By the Chairman:

Q. We have evidence here, Mr. Eden, that some members of the class A group sell to the consumer at less than the retailer can buy the goods from the jobber?—A. They lose money on it. I have never seen it.

Q. We have evidence; we have lots of it?—A. I read over this thing here and I could not identify any Canadian merchandise in these prices.

By Mr. Sommerville:

Q. It was all Canadian merchandise that was referred to, nothing but Canadian merchandise because they were not dealing with Czeckoslovakia or Singapore merchandise?—A. I am satisfied, sir, that some of the prices I saw were on this Singapore stuff, but if they sold, they are either obsolete shoes or they sold at a loss.

Q. You say that you do not want the co-operatives to have this full discount of 12 per cent even though they give you $250,000 worth of business in a year, and even though they remove all the expense of your travellers and your distribution?—A. I know they cannot.

Q. You do not want them to have it. Never mind what their problem is. Will you give it to them?—A. Well, you are talking about a supposition that cannot exist, because they cannot do it.

Q. You are skidding around it again?—A. I am not skidding around.

Q. I am going to tell you that it does exist and that you refused it, and refused it twice last year, and that your association has on record a letter asking for an answer and you have not given an answer—agreeing to buy all their goods, agreeing to pay you in cash for those goods, and agreeing to remove all the question of selling and all the question of distribution, and the members of your association agreed to bring it before your association, and there has not been an answer to this day—the members themselves saying they did not want to do business with the Mutual Shoe Stores. What have you got to say to that? That is the condition from which scores of retailers that are organized in Mutual Shoe Stores are suffering, and they say it is not fair?—A. I am more interested in the thousands of retailers that are not organized.

Q. The sooner they are organized the better. There are hundreds of them that are organized, and when they do organize you say, "We will not have anything to do with you."

The CHAIRMAN: Did your association receive a request of that kind?

The WITNESS: I cannot recall it. They may have, Mr. Stevens.

Mr. BADDEN: Yes, sir.

The CHAIRMAN: And what action was taken by your association?

Mr. BADDEN: No further action than the records show.

Mr. SOMMERVILLE: There is nothing in the minutes.

The CHAIRMAN: No answer was given?

Mr. BADDEN: No, sir.

The CHAIRMAN: Why did you not give an answer?

Mr. BADDEN: I think it was a verbal discussion. I did not discuss it.

The WITNESS: If they had written a letter to me they would have got an answer, because we do not refuse to answer anybody.

By Mr. Factor:

Q. What would you answer to a proposition like that?—A. I would not take it.

Q. Why?—A. Because they cannot function as a jobber. If they could function as jobbers—

Q. They are not trying to function as jobbers; they are trying to do business in order to exist, and you do not give them an opportunity of getting merchandise along with the larger stores?—A. We give them a bigger discount to-day than I say they are entitled to.

By Mr. Sommerville:

Q. The evidence is that when the individual retailer asked you for a larger measure of discount you said to him, "You cannot get the discount until you

produce the volume; organize." When he does organize then you say, "We will not do business with you." Now, what is the retailer to do? Will you tell him just to sit and suffer? That is not the answer?—A. No, it is not.

Q. It is in action?—A. No, it is not.

Q. Well, actions speak a good deal louder than words.

Mr. HEAPS: It is in action.

By Mr. Ilsley:

Q. I do not know. Perhaps I have not got the proper angle of this, but I have been listening to every syllable to see if I could get your idea. What are you afraid of in giving this co-operative, the Mutual organization, the same quantity of volume discount that you give the large buyer? What harm would it do? How would it hurt you to do that?—A. We would have to have a set-up to handle that business. We would have to give a discount to handle it, and we would be straddled in between. We have a set-up to handle the small retailer which is quite an expensive set-up. We call on every hamlet in Canada.

Q. Now you are saying that you want to keep on calling?—A. I do not know whether we do or not.

Q. That is what you are saying?—A. I say we have it; that is a fact.

Q. You have been complaining about that as a great source of expense. Now, you say you want to keep on doing it?—A. Until I see the road clear as to where we are going. I do not know which way the road is.

Q. If you have a real answer to the question I wish you would give it, because this is one of the very important things we are struggling with?—A. I do not think you can share your business and be satisfied that you are going to get out from under the expense. That is the position we are in to-day.

Q. Mr. Sommerville made his question very clear. The co-operative organization comes along and offers to buy $250,000 worth of goods and pay for it and handle it so you will not have any of these extraordinary distribution expenses. Now, why don't you give that organization the same discount that you would give those in the A class?—A. We would have to cover that same territory.

Mr. EDWARDS: That is the point, Mr. Eden.

Mr. SOMMERVILLE: When I mentioned that to you this morning you said, "Well, you would have to call on those same stores anyway." I asked you about the elimination of the number of stores and you said, that would mean extra travellers because you had routed your travellers and you would have all that expense.—A. You take that over a big district, if we could get enough business in one district to fill up ourselves, then it is a different situation.

By the Chairman:

Q. When you sold any of these class A or class B, they are in areas where your travellers go just the same, but you give them the discount; but a new type of business comes along in the same area and you will not give it to them?—A. I would say this, Mr. Chairman, apparently it is in a state of flux, these other fellows have been there.

Q. Can you tell me this: What is there in this price question that is unreasonable—it certainly would solve the whole problem in my mind if I knew what it was. I will ask you the question in any case. What returns did you get over cost of manufacture on goods sold at the rate of those sold under class A last year, $2,687,000 worth of goods? Can you tell that?—A. What, net return?

Q. Yes?—A. I do not know. I will try to work that up the best we can, if that would be of assistance to this committee. It will take some study. We try to net the same profit from each type of account we sell.

Q. Here is what is urged by the representations of thousands of retailers; they say that they are penalized with a high price to make up to the manufacturer what he actually loses on these excessively low-priced goods to, say the class A groups?—A. I am not sure. I would have to turn the accountants loose on it, my opinion is that we make more profit on the class A account than we do on the small retailer.

By Mr. Sommerville:

Q. Why not take more of it, it is being offered to you now?—A. If we could fill out the districts and organize this thing it would be a different thing.

Q. You can't have it both ways, if you increase your volume of class A, you know that it puts them in the position where they can undersell your retailer?—A. Why.

Q. Does it not put them in a position where they could undersell the retailer, the ordinary retailer?—A. Of course it does.

Q. And has not that had the effect of reducing the financial standing of the retailers, their business has gone down very substantially as compared to the good old days you were talking about; that is a matter of fact, is it not?—A. It is.

Q. Is there any more certain way of destroying the retailer, the local retailer, than by giving large advantages to the mass buyer?—A. Our aim has been and is right along to shorten the spread between the big account and the small account. We can show you conclusively over a period of years that we have cut that spread, cut it and cut it. This is the reverse. Now, there is a different thing altogether back of it. Now, you talk about this trend in business destroying the small retailer, it is not the price, I can take you into a dozen Ontario towns like Ayre, Brighton and others, where these fellows off the railroad used to sell $3,500 to $4,000 worth a year. There is nobody in those towns to-day, the automobile and the change in business has driven all this business from the small country towns, driven it into places like Kitchener, Guelph and Brantford.

Q. There are just as many people on the farm?—A. Yes, but they are not buying in these little towns.

Q. Largely because the mass buyer has captured the market?—A. I do not know, I think it is the attractions, the automobile and a lot of other things.

By Mr. Ilsley:

Q. Years ago, before the automobile came, the spread between your price to the large buyer and the small buyer was not so serious?—A. It was bigger than it is to-day.

Q. But the effect of it was not so apparent?—A. The population was not so mobile. It is not the spread altogether, it is attractiveness and quickness of transportation.

Q. The retailer, even if he did pay more for his goods in proportion to the large buyer years ago could still keep on, because of the immobility of the population?—A. Then of course he used to take things in trade for merchandise, the farmer was tied up to local merchants; so it is not price altogether by any means.

By Mr. Sommerville:

Q. Here is another factor, Mr. Eden. You said that you did not want to sell to this large buyer, the co-operative buyer, because that would enable them to compete with your jobber in the district?—A. If I said that I did not know it.

Q. It would enable them to distribute?—A. If I said that, Mr. Sommerville, you can erase that from the record; I did not say that.

Q. Did you not say that?—A. No, sir.

Q. I think what you said was— —A. If that is in the record, it is a wrong impression.

Q. You say that if you sold to these co-operatives they would be competing with your jobber?—A. Our branch, not the jobber.

Q. All right; and that they would be able to go into a town and pick out one account and say, come on in with us and you can get the discount; that is what you say?—A. Yes.

Q. And then compete with your jobber?—A. We know our business and we know our expenses; if we did not know that how could we do it without putting up our prices.

Q. Here is what I see is your discount: where jobbers are located at private points and carry goods on consignment for one manufacturer they should have exclusive representation and territory for that same manufacturer, they should be allowed a discount or commission of 12 per cent for the selling and carrying account, and a further allowance of 5 per cent to cover handling when the goods are shipped from consignment stock, making a total commission or allowance of 17 per cent on goods shipped from consignment stock?—A. That is right.

Q. You allow the 17 per cent?—A. Those are the fellows that act as a branch where you have no other representation, that is the way a small company—

Q. This is at branch points?—A. No, you would not have a branch at the same point at which you would have a consignment jobber, there is never the two. If you have a branch in a town you have enough business to support a branch. Some small company may be in town without enough business to support a branch, they will have a consignment jobber function for them as a branch.

Q. That is to say, where your branch has the competition of a jobber in a branch point, then that jobber if he carries consignment goods, gets 17 per cent discount?—A. He acts as somebody else's branch.

By Mr. Factor:

Q. There is no such thing as your branch being a consignment jobber?—A. Not in the same town for one company, if you have the one you do not have the other.

By Mr. Sommerville:

Q. Is that right?—A. Yes, that is.

Q. Wait a minute now, what are branch points, is not that a point where you have a branch house?—A. Yes, but all companies do not have branches. If they do not have a branch they put in a consignment jobber.

Q. That is to say, Gutta Percha may have a branch, we will say at Ottawa, and Dominion may have a consignment jobber at Ottawa?—A. Yes.

Q. That is true?—A. Yes.

Q. And they are competing?—A. Yes.

Q. And where that condition exists you allow the consignment jobber 17 per cent?—A. Yes.

Q. And you will take back at the end of the season whatever goods are left on the consignment jobbers' hands, if necessary?—A. Yes.

Q. That is worth around 3 or 4 per cent more to the jobber, to be able to get his goods sent back?—A. He does not send them back, they are reserved; but he is in exactly the same position.

Q. That is worth something, he does not have to pay for them?—A. He is your appointed agent, he has exclusive right, it is your stock.

Q. So that he has 17 per cent?—A. Instead of paying him a salary you pay him a commission on the business that goes through. That is the only difference between a consignment jobber and a branch—you pay rents and salaries to your people, while the other man pays his own rent, and so on.

Q. Now, listen; the Mutual Shoe Stores handle goods and distribute them among their related firms, all they ask is to be given this 12 per cent without any right to return goods at all. The jobber has 5 per cent plus this rate, and the right to return his goods?—A. That is your branch jobber. We own our branches. We have got a big set-up, pay rents, salaries and so on.

By Mr. Factor:

Q. The point Mr. Sommerville makes, he cannot compete with the consignment jobber?—A. That is a different set-up entirely, he is not a sole representative.

By Mr. Sommerville:

Q. I just wanted to see what there was in that argument, that there were mutual shoe stores competing with your jobbers; apparently there is not much in it? Is there any possible reason you can now furnish to us showing why this discount should not be given, and this account brought nearer in line with the large accounts?—A. I have said the only reason I know is, you share your business and you do not share your expenses; and we cannot afford to do that unless we increase our prices.

Q. Now, do not let us misunderstand it, we have it definitely on record from you on behalf of the association that if the Mutual Shoe Stores offer you $250,000 worth of business—or if any cooperative offer you $250,000 worth of business—take the shoes from you and distribute them themselves, arrange to take their own orders, and you have no selling expenses; that you will refuse to give them the Class A discount?—A. I cannot speak for the Association, I can speak for our company, that we would not take it ourselves. You are making a supposition that I cannot accept. If you want to make that a hypothetical case, my answer is, no, not at the present time.

Q. I am not making any hypothetical case at all, I am giving you an actual case?—A. I say it is hypothetical, because, from my knowledge of the rubber business—.

Q. In the spring of 1931 you sold $300,000 worth of rubber footwear and were paid for every dollar of it by the Mutual Shoe Store—this is one of the Cooperatives. In the year 1932 your association refused to do any business with them at all on the basis of anything better than the Class D discount. In 1933 they came to two members of your association, Mr. Kaufman and the Goodrich people, and definitely agreed that they would take the goods, warehouse them themselves, take their own orders and pay for them, and added to that the guarantees that had been given in 1931; and they were told we will not do business with you. A month later one of these two representatives, Mr. Kaufman, met the committee and said he would submit the matter to the association. A month later they wrote to the association for an answer and up to the present moment they have never received a reply. Now, that is not a hypothetical case, that is an actuality you are dealing with; and up to this moment you have not given an answer, and we must assume that you refuse the business—there can be no other presumption?—A. These companies apparently refused it.

By Mr. Kennedy (Winnipeg):

Q. You are accepting that statement as correct, so there will be no misunderstanding?—A. I can only say had that business been put to me I would have refused it, because they cannot function the way Mr. Sommerville describes.

The CHAIRMAN: Mr. Eden has already stated that this case was before the Association, and the Association gave no answer to it.

By Mr. Factor:

Q. You verbally refused the business?—A. No, sir.

By Mr. Kennedy (Winnipeg):

Q. But you are further stating that if that same offer was made now, you would refuse the business?—A. Because, they can't function the way Mr. Sommerville explains, at least, that is my opinion.

Mr. FACTOR: They can't function you say.

The CHAIRMAN: I don't know that there is any need of pursuing that any farther.

Mr. YOUNG: Maybe Mr. Badden can tell us. He said they discussed that freely. What did they say?

Mr. BADDEN: The manufacturers discussed it. I don't know what they said.

Mr. YOUNG: You were not there?

Mr. BADDEN: No.

The CHAIRMAN: In any case, the business was not accepted.

The WITNESS: That is apparent. The order was not taken.

Mr. EDWARDS: Perhaps you had better find out if the experience with that company was satisfactory.

Mr. SOMMERVILLE: From $200,000 to $300,000.

Mr. EDWARDS: I mean other conditions, whatever those conditions were; I don't know.

By Mr. Sommerville:

Q. May I ask this: We have been talking about the allowance to class A buyers. That is 12 per cent this year, a 12 per cent discount, is it not?—A. Yes.

Q. What else do they get as well as the 12 per cent?—A. The bonus shown on the schedule given you there.

Q. What would be the bonus in the case of the sale of $300,000 worth of goods?—A. It would be 1 per cent of $50,000.

Mr. BADDEN: Right.

By Mr. Sommerville:

Q. 1 per cent?—A. 1 per cent of $50,000.

Q. In the case of the sale of $1,000,000 worth of goods it would be what?—A. It would be 1 per cent on 250; it would be 2 per cent on 250 and 3 per cent on 250. Is that right?

Mr. BADDEN: I don't know how you figured that out.

Mr. SOMMERVILLE: 1½ per cent, is it?

Mr. BADDEN: It is changed to 1, on one line.

Mr. SOMMERVILLE: Not on tennis?

Mr. BADDEN: Not on tennis.

The WITNESS: Some end of the business, the big end waterproof has been changed to one. That would be 1 per cent on a quarter-million; 2 per cent on a quarter-million, 3 per cent on a quarter-million.

By Mr. Sommerville:

Q. 1 per cent on the first quarter-million, 2 per cent on the second quarter-million?—A. No, there would be nothing on the first quarter. 250 to 500, that is 1 per cent, and 500—

Q. $500,000 to $750,000, 2 per cent?—A. Yes. $750,000 to $1,000,000, it would be 3 per cent.

Q. What other advantages do they get?—A. None that I know of.

Q. Any special discounts?—A. No. Everything is filed with you.

Q. Any cash discount?—A. They get the same cash discount as everybody else gets.

Q. What is that?—A. 2 per cent. That information is right there. Those figures are absolutely comparative on the spreads.

Q. No advertising allowance?—A. No, none at all.

Q. Are there any advertising allowances paid by the members of your association at all?—A. No.

Q. To anyone?—A. To anyone.

Q. Any free goods?—A. No, sir.

Q. Any special allowances for anything like that?—A. No, sir.

Q. Then the advantage that they have over the ordinary retailer is represented— —A. Absolutely reflected in that chart there.

Q. In the chart that you have put in?—A. Yes.

By Mr. Factor:

Q. May I ask you this: If such a thing were possible, that all the retailers in Canada would group themselves in localities and co-operatively buy from you, eliminating the travellers, would you be willing to do that?—A. We would be, if such could be done. It would take away a lot of our troubles if we could get back and be in a position of doing business as we did with the jobbers before they were more or less exterminated. They have destroyed the set-up which apparently was useful. Apparently it is gone. They may come back. I don't know.

Q. Do you think in your business the jobber system is the most advantageous way of merchandising?—A. No. It got to a point where it was too extravagant for the volume they could give; because the leather fellow had gone to the fair-sized retailer and there was no quantity of the leather business for this chap to do. He just had to go to the very small outlet or bad credits, and they left him high and dry. I think possibly over a period of time that you would get organized retailers.

Q. I can see your problem, where part of the merchandise would be bought co-operatively, and part you would have to send travellers and go to the individual retailers, and you could not co-ordinate those two together?—A. You can't co-ordinate them. You can't afford to do it.

By Mr. Kennedy (Peace River):

Q. How are you going to get them organized 100 per cent or 80 per cent, if you won't do business with them?—A. We do do business with them. We give them more to-day than we did.

Q. You have been telling us here you would not give them the same consideration that you would to another?—A. Pardon?

Q. I say you have been telling us you would not give them the same consideration that you would give other firms?

Mr. SOMMERVILLE: There is no encouragement to the organization of the kind you want.

By Mr. Kennedy (Peace River):

Q. You say you want a certain type of organization, but you discourage the function of that type?—A. No, we pay more to-day to that type of organization than we can afford to pay, ourselves, right now.

By Mr. Young:

Q. When you refused to sell them these orders, can you blame the companies for trying to get their supplies from some place else?—A. Not a bit.

Q. Did you ever ask the government to put a duty on so they could not import their supplies?—A. It just happens that there is not a duty on our stuff. There is a protective duty on a lot of raw materials, but there is no duty on our finished goods.

Q. No duty on rubbers?—A. No.

By Mr. Factor:

Q. What was responsible for the destruction of the jobber system in the rubber shoe business?—A. In the main, I think it was the multiplicity of small rubber shoe manufacturers, and each one reaching out for the fair sized retailer, and they picked off all the good retailers themselves, going direct, and thus they starved their own jobbers.

Q. Was the departmental store not responsible to some degree?—A. I think it may have been contributing, but I think it was more the manufacturers. I think it is the same in footwear as it has been in any other line. Here you have the biggest dry goods people in Canada—Greenshields, Racines and Hodgson & Summer—three of the biggest wholesale drygoods people in Montreal, who had to amalgamate a few months ago. I think the cause of that is undoubtedly that these big concerns go to Europe and bring in the type of merchandise they were buying.

By Mr. Kennedy (Winnipeg):

Q. May I have your attention for a moment. I have a wire here from the Winnipeg Merchants Association at Winnipeg, and the gist of it is, "Understand rubber companies appearing before Stevens committee this week," and they ask for full investigation into what they term "unfair discounts the large buyers of rubber footwear receive." Are the discounts referred to in this wire the discounts that are set out in the schedule filed?—A. In the schedule filed here.

Q. They do not elaborate. Have you any comment to make as to what they term unfair discounts, that might be reflected in complaints you receive? Would you comment on that?—A. I don't know just what the small retailers would consider a proper spread between the small fellow and the big fellow. I know of lines of merchandise on which, by gad, there is a 35 per cent spread.

Q. I take it your point of view is—and I am not arguing the point at all—that where you sell in large quantities you give a bigger discount, naturally, than you do where you sell in smaller quantities?—A. Surely. We can afford to.

Q. In view of the fact that selling in smaller quantities, from your experience, is much more expensive to you?—A. Very much more expensive.

Q. Is that what they refer to as unfair discounts?—A. Yes.

Q. And from your experience in business, shall I take it that your view is that these are not unfair discounts?—A. I think they are fair discounts. I know of no industry in Canada with discounts like those you have before you here.

Q. Would it be a correct interpretation of their viewpoint as put forward in this wire, that they seem to think that the small retailer should get as much discount as the large buyer?—A. It is.

Q. Is that what they impress on you?—A. That is what they impress on everybody in the country.

Mr. SOMMERVILLE: They are not asking for the same discount as the big buyer or class A. They are asking to reduce the spread between the two so that they can compete.

The WITNESS: Have you any idea, Mr. Sommerville, what they think the spread should be?

Mr. SOMMERVILLE: I have no doubt they have discussed it with you time and time again.

By Mr. Kennedy (Winnipeg):

Q. Just let me finish this point. Then I can take it that the spread as indicated in that schedule of discounts filed is the spread on which your company operates, and similar companies in the association?—A. Yes.

Q. And in the view of your association, those are fair spreads?—A. Yes. The reason that I believe there is a criticism of these discounts is because they are known. There are no secret rebates or premiums or advertising or anything given away. In a lot of cases they think they are getting a good discount and they are not. This is right open. There are no secret rebates or anything. It is all public property.

Q. Let me just go one step further. They say: "Assistance badly needed," the independent shoe dealers. Assuming that, as a result of these discounts, the small retailers have to go out of business to a considerable degree, what effect generally on the industry would that have?—A. Well, it will probably leave a store vacant in some towns.

Q. I mean, as manufacturers are you concerned, from a business point of view, as to whether or not these small dealers do go out of business?—A. No. There are undoubtedly some small dealers that should never have been in business, but the unfortunate thing is they are there and what are you going to do with them?

Q. If the effect of these discounts is to drive, we will say, any considerably quantity of retailers out of business, are you as manufacturers concerned in that?—A. I don't think it is our problem.

By Mr. Sommerville:

Q. You say there have been no secret discounts?—A. No.

Q. Were not all these discounts secret until this morning? The retail trade didn't know what they were?—A. Every retailer pretty near in Canada knows them.

Q. Is that so?—A. Yes.

Q. Are they generally known throughout the trade?—A. Yes.

Q. The amount that is allowed?—A. Yes.

Q. Then they still consider them unfair, according to the wire received? —A. Yes. Most of these lines they don't know, and they get a discount and somebody else gets a whopping bigger discount and they don't know about it, and they think they are all right.

Q. Let me ask you this: Are you interested in enabling your retail merchants to compete with the large firms on reasonable terms?—A. We hope that every person that buys from us has the same reasonable chance of success.

Q. All right. Let us try it out on bicycle tubes. You make a bicycle tube known as Endurance?—A. I believe we do.

Q. Or rather a bicycle casing, don't you?—A. I believe we do. It is one of our brands, I think.

Q. And the cost to the retailer is a dollar?—A. I don't know.

Q. That is as it appears on the Dominion Company price list which I have here. Then you make another bicycle casing called Regent?—A. I can't tell you. I will be pleased to look it up and file the information.

Q. You don't know that that is one of your brands?—A. No. We make about fifty million different things.

By Mr. Factor:

Q. It is too much for you, as president?—A. Yes, when it comes to bicycle tubes.

By Mr. Young:

Q. Do you say there is no duty on your goods?—A. Not from England or Singapore.

Q. Just a minute— —A. There is on tennis. There is a 15 per cent duty on tennis, but no duty on waterproof footwear, the big end.

Q. What about clothing?—A. We were talking about footwear. I understood you were asking about that.

Q. Under the general tariff there is a duty of 27½ per cent. On clothing it is 25, 30 and 35 per cent plus 50 cents?—A. The markets we are most liable to get our stuff in from, there is no duty, barring Slovakia.

Q. Something was said this morning about imports from Japan and Czechoslovakia?—A. Imports from Japan are practically shut off; and the serious imports are from Singapore, which come in free.

Q At the moment they are free?—A. Yes.

Q. It is only footwear that is free?—A. Yes. On tennis there is a 15 per cent duty, I believe.

Q. 25 per cent on clothing?—A. Well, I don't know anything about clothing. I am not in the clothing business.

Q. Rubber coats and so on?—A. We don't make them.

Q. Do you make hose?—A. Yes.

Q. 20 per cent on that; tires and so on, 22½ per cent under the British preferential?—A. Whatever is in the book. It speaks for itself.

By Mr. Sommerville:

Q. Let us see about this casing. Perhaps you will recognize your price list?—A. Yes.

Mr. Factor: It is a coloured price list.

By Mr. Sommerville:

Q. It is a green one. They have all the colours of the rainbow in here?—A. That looks like ours.

Q. The price for the Endurance casing is $1, is that right?—A. Yes.

Q. The price to the consumer, $1.50?—A. That is our suggested consumer's price.

Q. Well, there is the price, at any rate, that you put out on your list?—A. Yes. Whether anybody gets that or not, I don't know.

Q. At any rate, those are your list prices, and you charge the retailer $1?—A. Well, if he buys $600,000 or over, he has a 10 per cent discount.

Q. 10 per cent?—A. Yes.

Q. I show you this advertisement. Price list, $1.50. You make a bicycle called "Regent." Your firm name would be on that?—A. I do not know.

Q. I think it is sold to one of the department stores?—A. I do not know. I would have to look it up for you.

Q. Do you not make any brands that you reserve especially for the departmental stores?—A. As a rule any brand we make for a departmental store is their brand.

Q. That does not have their name on it. This is a casing that has your name on it. The retailers advise that, "bicycle dealers in this city"—This is written from Calgary—"have requested the Dominion Rubber Company to supply to trade same line as sold by the T. Eaton Company, but have been refused. The public are led to believe that they are purchasing same quality of tire from Eatons and assume that independent dealers are getting enhanced

profit when they sell tire in accordance with consumers price list as set by the Dominion Rubber Company." Why do you refuse to sell to the retailer the goods which you sell to Eatons?—A. I do not know anything about that. I would have to go into it.

Q. They refer to these three items in unfair competition: first, "Bicycle casings, Endurance, size 28x1½. Cost to retailer $1 as per Dominion Rubber price list. Retail selling price to consumer as per attached Dominion Rubber price list $1.50."

Exhibit 2: "Bicycle casing (Regent) size 28x1½ advertised and sold by the T. Eaton Company at ·79 cents as per voucher. See attached advertisement dated Tuesday, March 27."

Exhibit number 3: "Bicycle casing (Rgent) size 28x1½ sold by the T. Eaton Company including the tube as per attached for 95 cents complete. Price of this tube to retailer from Dominion Rubber Company 38 cents."

Now, how in the world do you expect your retailer to compete with that condition when you will not even sell him the goods that will enable him to sell in competition?—A. I do not know whether we would or not. I do not know anything about it. I would have to investigate it and give you a report on it.

Q. Is there no truth in the statement made by these retail merchants that they cannot buy these goods from you?—A. I do not know.

Q. Here is a bicycle tire and tube for 95 cents made by you, and here is the list, your own list, and here is your invoice for an Endurance casing, present price $1 to the retailer?—A. You are speaking of something I do not know anything about.

By Mr. Factor:

Q. You did say that the article made for the departmental stores is exclusively theirs?—A. If it has a private brand.

Q. If the Regent was made for the T. Eaton Company you would not sell the Regent without any brand?—A. We might or we might not. I do not know what kind of arrangement we have made. It is not customary to confine a brand with our name on it to one person.

By Mr. Sommerville:

Q. No. That is what I understand?—A. I do not know about that. I have to go into it. But as a rule if a departmental store has a brand, if they own the name—

Q. But their name will be on it, and no one will be able to identify that it is made by the Dominion Rubber Company?—A. Yes.

Q. But when your name is on it and your brand is on it this committee would like to know why you refuse to sell to a retailer so that he might compete?—A. I will have to go into it.

Q. As far as you know, has there been any representation made by the large buyers that they will not consent to you selling these brands to the retail trade to compete with them?—A. Not to my knowledge. I do not think there would be.

Q. Have you heard of representations from other sources?—A. We will have to go into it and give you the answer.

Mr. Heaps: Are we to have anything about wages?

Mr. Sommerville: I beg your pardon. There is the question of wages. Somebody was asking a few minutes ago about a letter received as to the reason for the difference in the discount allowed departmental stores, and here

is a letter written from the Gutta Percha Rubber Company, Montreal, January 19, 1934, addressed to a person in Ontario, a dealer which says:—

> We realize it is hard for the dealers to compete with some of the prices that are offered by chain store organizations. They usually take one or two lines and use them as leaders on which they get an exceedingly low price. Then again the difference in overhead of a large organization as compared to a smaller store must be considerable and should be considered.

The WITNESS: I do not know what they are talking about, do you?

Mr. FACTOR: That is the explanation of the Gutta Percha Company for the difference of the discount.

The WITNESS: Is it the dealer's buying price or the consumer's price or what?

Mr. SOMMERVILLE: "Concerning discount allowed for volume purchase would say that the bonuses are as follows." They set out the bonuses up to 6 per cent on $15,000 purchases.

The WITNESS: Yes.

Mr. SOMMERVILLE: And then they say, "This is the only method that you can obtain a greater discount than you are now obtaining." Then they go on to point out this reason why these discounts are given to the larger concerns.

The WITNESS: Read that again.

Mr. SOMMERVILLE: "Then again the difference in overhead of a large organization as compared to a smaller store must be considerable and should be considered." That is one of the reasons, undoubtedly.

The WITNESS: As far as that is concerned, we do not think it is any of our business what the operating costs of our customers are; we are concerned about our own.

(File, *re* bicycle casings filed, marked Exhibit 200.)

Mr. SOMMERVILLE: Now, you were asked about the rubber footwear. We made an analysis of the wages and this is what we find. Dealing with the Ontario companies: first factory, average weekly earnings, male $16.74, female, $8.57, average hourly rate, male .379, female .264; factory number 2, average weekly earnings, male $13.73, female $8.78, hourly rate is not carried forward in that instance; factory number 3, average weekly earnings, male $20.40, female $12.48, average hourly rate .408. male and .283 female; factory number 4, average weekly earnings, male $20.71, female $11.35, average hourly rate, male .430, female .269; factory number 5. average weekly earnings, male $15.60, female $8.63, hourly rate not carried out.

Mr. HEAPS: Is there any reason why they are not carried out?

Mr. SOMMERVILLE: We have not got the hours worked by the plant in the report that has been made.

Mr. HEAPS: It seems it is the low ones that you have not got and the high ones that you have.

Mr. SOMMERVILLE: No, the lowest one $8.57, we have that. On the first one, the hourly rate for men is .379, women .264; factory number 6, average weekly earnings, male $11.57, female $7.26, average hourly rate, male .40, female .25. That is for the Ontario companies.

Mr. KENNEDY (*Winnipeg*): Over what period?

Mr. SOMMERVILLE: This is for the whole year 1933, but it is quite apparent that it does not cover a full week in the case of the women because the hourly rate would indicate that they had worked less than the full week—both men and women.

Mr. FACTOR: Is that all in Ontario?

Mr. SOMMERVILLE: That is in Ontario, these six factories. There is one company that has a factory in both Ontario and Quebec. Now, these are the Quebec figures: the first factory, average weekly earnings, male $15.73, female $8.42, hourly rate not carried forward; second factory, average weekly earnings, male, $13.90, female $9.29, hourly rate, male ·325, female ·235; factory number 3, average weekly earnings, male $14, female $10.92, hourly average not carried out. These are the figures on nine factories six of which are in Ontario and three in Quebec.

Mr. HEAPS: It discloses the fact that practically in every case the employees are working for away below anything we would call a living wage.

Mr. SOMMERVILLE: The rates per hour in Ontario run from 37 cents to 43 cents for men and from 25 cents to 28 cents for women. In Quebec the only one we have is a rate of 32 cents for men per hour and 23 cents for women.

Mr. KENNEDY (*Winnipeg*): Can you tell me where the rates per hour are carried out, does it indicate a breach of the law in as far as the minimum wage law is concerned?

Mr. SOMMERVILLE: I would not say so because the lowest rate is 23 cents per hour and that is in the province of Quebec, and if that is located the rate would provide the minimum wage regulation.

Mr. HEAPS: Have you not got the list of the profits made by these firms in the same year?

Mr. SOMMERVILLE: We have a composite statement of, I think, their earnings. No, we have not, Mr. Heaps.

Mr. HEAPS: Perhaps Mr. Eden could tell us the profits of the Dominion Rubber Company for 1933.

Mr. ILSLEY: Are you going into all that question of capitalization?

The WITNESS: I will file our statement.

Mr. SOMMERVILLE: I will get a composite picture of the various companies.

Mr. HEAPS: Yes, this is rather an important question, when you find the firms in question are being granted such large privileges by the government and you find these average wages paid where a woman earned $7.36 a week and a man earned $11.50 a week.

By Mr. Factor:

Q. Do you mind giving us— —A. Not a bit, but the unfortunate thing is the speed with which these factories have been running. Some of these factories have been shut down for weeks. If you take a payroll and divide it by the number of weeks in a year it gives you a distorted view of the average weekly wages.

Mr. HEAPS: Try to compare that with the profits earned in the same period.

By Mr. Factor:

Q. Yes, try to compare that with the profits earned in the same period? —A. I do not think you will find any excess profits with us. We did over $8,000,000 worth of business and lost over $17,000.

By Mr. Sommerville:

Q. I will get from Mr. Hannay a statement of all the operations?—A. Our problem is to try to get these minimum wages up for these provinces; they cannot make them high enough for us, we pay over the minimum.

By Mr. Heaps:

Q. Which provinces are below the minimum?—A. We pay well above the minimum in each of the provinces, so much so that it is embarrassing. We would like to see these minimum wages in the provinces put up.

Q. How much difference in wages does your firm pay as compared to the other ones?—A. I do not know, that is not available to me.

By Mr. Young:

Q. Mr. Sommerville asked you a while ago if you had ever been threatened by any of these big buyers that if you did not give discounts they would set up factories of their own; from whom did you hear that?—A. I do not know, I think it was general gossip.

Mr. FACTOR: You will give us the details of the profits.

Mr. SOMMERVILLE: Mr. Hannay, will you be good enough to furnish us with a statement from each of the companies, their balance sheets showing the profits over the last five years.

Mr. HANNAY: I will ask them for it, and if I receive it I will send it to you by mail.

Mr. SOMMERVILLE: I want that for both the tire companies and the footwear companies.

Mr. HANNAY: In some cases the two are one, they are combined; one statement would cover both cases in some instances.

Mr. SOMMERVILLE: If they are, one statement will cover, unless they have it divided to show the footwear section; if so I would like them separate.

Mr. HANNAY: I think I have most of that.

Mr. SOMMERVILLE: Yes, if you would be good enough to file that.

Mr. HANNAY: I will send it to you by mail.

The CHAIRMAN: Are there any other witnesses?

Mr. SOMMERVILLE: Mr. Hougham was interested in the Mutual Shoe Stores; I do not know whether he wanted to make any statement, or any reply.

Mr. HOUGHAM: I think perhaps the representatives of the stores who conducted the negotiations might make a worth-while contribution. I do not think I would care to waste the time of the committee.

The CHAIRMAN: You can get it ready then, ask them to present it in as brief a form as possible.

Mr. HOUGHAM: Do I understand that you will be prepared to receive representations.

The CHAIRMAN: Yes, later on.

We will stand adjourned until Tuesday morning at 11 a.m.

Mr. FACTOR: What is coming on Tuesday morning?

The CHAIRMAN: On Tueday morning we will commence with the reports of the auditors on the packing industry.

We will adjourn until Tuesday morning.

The Committee adjourned to meet again at 11 a.m. on Tuesday, May 29, 1934.

House of Commons, Room 368,

May 29, 1934.

The special committee apopinted to inquire into price spreads and mass buying met at 11 a.m., Hon. H. H. Stevens, presiding.

Mr. Norman Sommerville, K.C., of Toronto, and Mr. W. W. Parry, K.C., of Toronto, appeared as Counsel for the Committee.

The Chairman: Order, gentlemen. The minutes of the last meeting record the names of witnesses heard, and certain exhibits filed. We will declare the minutes approved.

Mr. Boulanger: Before we proceed with the business of the day I would like to make a motion concerning the travelling expenses of Mr. Victor Chartrand, of L'Ephiphanie, who was heard as a witness before the committee on May 10th. He was not summoned regularly, he was in the room and Mr. Sommerville called him to the stand. I do not see why there is any reason that he should not receive his expenses the same as other witnesses, and I would so move.

The Chairman: Instead of making a motion, I think if you would take that up with the Clerk of the Committee, it would be arranged.

Mr. Boulanger: I understand not. I understand that as he was not summoned in the regular way, a motion is required.

The motion on being put was carried.

Mr. A. B. Shepherd, called and sworn.

By Mr. Sommerville:

Q. Mr. Shepherd, you are a partner of the firm of Peat, Marwick, Mitchell & Co., Auditors and Chartered Accountants?—A. Yes.

Q. And you have made an examination for the Committee of certain phases of the packing industry?—A. I have.

Q. And in certain plants?—A. Yes.

Q. What plants in Canada have you made an inquiry into, and what is the extent of that inquiry?—A. The plants we have examined are Wilsil's Limited.

Q. Wilsil Limited, of Montreal?—A. Yes. Swift's at Toronto and Edmonton, Swift Canadian Limited, Hunnisett, of Toronto; Gainers Limited, at Edmonton; and Canada Packers Limited, at Toronto and Hull; and certain operating statistics at Montreal, Winnipeg and Peterborough.

Q. You have not examined all of the plants of Swift?—A. No.

Q. And you have not examined all of the accounts and all of the plants of Canada Packers?—A. No.

Q. But with respect to the two plants at Toronto and Hull, you have made an examination of certain phases of their activities; and then with respect to certain other operations you have made examination of some figures from Canada Packers at Peterborough and Winnipeg?—A. Winnipeg and Montreal.

Q. Then you examined Burns Limited?—A. No.

Q. That was examined by somebody else, and the firms that have been mentioned are the large packing operators of Canada, are they not?—A. Two of them are.

Q. Canada Packers and— —?—A. Swifts.

Q. Then the next in order?—A. Wilsil, and after that, Gainers.

Q. And Burns?—A. Burns would, I think, come before Gainers.

Q. Burns would come before Gainers?—A. And Wilsil.

Q. Probably before Wilsil?—A. Yes.

Q. You have, for certain purposes, made an examination of the packing industry in Canada?—A. Yes.

Q. Now, take the first plant you named, Wilsil; will you just indicate to us—that plant is located at Montreal?—A. Montreal.

Q. And it is a single unit; it has no branch plants in other parts of Canada?—A. No.

Q. It operates at Montreal?—A. Yes.

Q. I understand that this is a plant in connection with which you have made an examination of certain features?—A. Yes.

Q. Will you kindly indicate to the commiteee what are the features of the examination that you made at Wilsils?—A. The features of our examination are:—

(*a*) To ascertain the Net Income earned on the capital invested in the Company after eliminating extraneous charges or credits to operations, if any.

(*b*) To determine the spread between the price paid to the producer of live stock and the price received by the Packer from the sale of the various products manufactured from live stock.

(*c*) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments, (2) stockyards or markets, and (3) truckers, and the percentage which each of these classes bears to the total purchases.

(*d*) To determine the hourly rates of wages paid by the Company and prepare a tabulation giving the number of employees paid at each of the different hourly rates.

Q. These were the four sections you were dealing with in connection with your report?—A. Yes.

Q. And in support of this information you are handing in a memorandum submitting statements?—A. Yes.

Q. And the statements you submit are?—A. The following:—

Exhibit "A"—Consolidated Balance Sheet, Wilsil Limited and City Renderers Limited as at December 31, 1933.

Exhibit " B "—Condensed Statement of Operations for the five years ended December 31, 1933.

Exhibit " C "—Statement showing percentage of Net Income to invested Capital for the five years ended December 31, 1933.

Schedule " 1 "—Statement showing the approximate average yield and average selling price of hogs for week ended March 10, 1934.

Schedule " 2 "—Statement showing the approximate average yield and average selling price of hogs for week ended March 17, 1934.

Q. Will you be good enough to submit to the Committee the results of your enquiries on each of the four divisions of your reference?—A.:—

(*a*) To ascertain the Net Income earned on the capital invested in the Company after eliminating extraneous charges or credits to operations, if any.

Q. Before we deal with this I would suggest that the memorandum submitted should be printed in the records as such.

The CHAIRMAN: I think that is agreeable to the Committee.

Mr. SOMMERVILLE: We will then have the record in proper form.

TORONTO, ONT., May 16, 1934.

MEMORANDUM *RE* WILSIL LIMITED

In the following paragraphs we submit certain information prepared from the certified accounts of the Company's auditors, from the books and records of the Company and from information obtained by us from the management without independent verification of the accounts.

The scope of our investigation, which is outlined in general terms in the Resolution of Parliament, may be divided into the following specific enquiries:—

(*a*) To ascertain the Net Income earned on the capital invested in the Company after eliminating extraneous charges or credits to operations, if any.

(*b*) To determine the spread between the price paid to the producer of live stock and the price received by the Packer from the sale of the various products manufactured from live stock.

(*c*) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments, (2) stockyards or markets, and (3) truckers, and the percentage which each of these classes bears to the total purchases.

(*d*) To determine the hourly rates of wages paid by the Company and prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In support of the information included in the memorandum we submit the following statements:—

Exhibit "A"—Consolidated Balance Sheet, Wilsil Limited and City Renderers Limited as at December 31, 1933.

Exihibit "B"—Condensed Statement of Operations for the five years ended December 31, 1933.

Exhibit "C"—Statement showing percentage of Net Income to invested Capital for the five years ended December 31, 1933.

Schedule "1"—Statement showing the approximate average yield and average selling price of hogs for week ended March 10, 1934.

Schedule "2"—Statement showing the approximate average yield and average selling price of hogs for week ended March 17, 1934.

(*a*) To ascertain the Net Income earned on the capital invested in the Company after eliminating extraneous charges or credits to operations, if any.

Capital.—Wilsil, Limited, was incorporated on March 27, 1929, with an authorized capital of 16,000 convertible preferred shares of \$5 each, and 50,000 common shares of no par value. At December 31, 1933, there were issued and outstanding 16,000 convertible preferred shares of \$5 each and 18,000 common shares with a stated value of \$5, a total capital of \$170,000. The preferred shares carry no stipulated dividend rate, but are limited to \$1 per share in excess of the dividend paid on the common shares and are exchangeable at any time on the basis of two common shares for each share of preferred stock. Since January 1, 1930, dividends have been paid annually on the preferred shares at the rate of

$1 per share, and for the year ended December 31, 1929, a dividend of 25 cents per share was paid. No dividends have been paid on the outstanding common shares in accordance with the restrictive terms of a mortgage agreement now in force.

The entire outstanding preferred and common shares were originally issued as a bonus to the subscribers to an issue of 6 per cent Second Mortgage bonds due on January 1, 1949, in the amount of $800,000.

In Exhibit "A" we submit a Consolidated Balance Sheet of the Company at December 31, 1933, based on the audited Balance Sheet submitted to the shareholders.

Net Income.—A condensed statement of the operations for the period from the parent company's inception, March 27, 1929, to December 31, 1933, is submitted in Exhibit "B". It should be noted, however, that the figures for 1929 include the operations for the entire year.

In reviewing the operations consideration was given to such controllable items of cost as salaries, repairs and depreciation and adjustment of inventories which might have an important bearing on the Net Income of the Company, as reported.

No items of sufficient relative importance were found to warrant adjustment of the earnings, but we are of opinion that the aggregate provision for repairs and depreciation is liberal representing as it does an amount of $574,269.23 for the period under review, or 54 per cent of the average book value of the depreciable assets.

The following comment is submitted on certain items included in the operating statement:—

Sales.—In the following tabulation we submit details of the Companies' sales for the period under review, together with the percentage which the net income bears to the sales:—

Period	Sales	Net Income	Percentage
	$ cts.	$ cts.	%
Year ended December 31, 1929	6,704,070 60	98,605 11	1·47
" " 1930	5,936,224 66	73,983 54	1·25
" " 1931	5,174,010 58	55,516 89	1·07
" " 1932	4,416,959 77	9,552 89	0·22
" " 1933	5,244,670 97	166,438 00	3·17
Total	27,475,936 58	404,096 43	1·47
Average for period	5,495,187 31	80,819 28	1·47

Inventories.—The inventories appear to be conservatively valued at estimated cost or market, whichever was lower at commencing and closing dates, and the basis of valuation appears to be the same throughout the period covered by our examination. The figures, therefore, do not call for special comment or adjustment.

Depreciation.—The following rates have been used by the Company in computing depreciation on fixed assets:—

Buildings	$2\frac{1}{2}$%	per annum	
Machinery	10	"	
Stable equipment	10	"	
Office furniture	10	"	
Trucks	25	"	for first year, and
	20	"	thereafter.

Repairs and Renewals.—While the annual charges for repairs and renewals appear to be high we are informed that these expenditures are necessitated by the nature of the business. Our examination of the accounts relating to repairs indicated that of a total expenditure of $276,834.58 over the period of five years approximately $32,000 is in respect of charges which might be regarded as being in the nature of renewals or betterments.

Executive Salaries.—The total annual salaries of the three Executive Officers are $36,500.

These annual rates have been in force since 1930. No bonuses are paid to these officers.

Invested Capital.—In Exhibit "C" we submit a statement showing the relation which the Net Income before providing for interest on the second mortgage bonds bears to the average invested capital during the period under review, based on the annual Balance Sheets and Profit and Loss Accounts as certified to by the Companies' auditors.

In preparing this tabulation the book value of the preferred and common shares, namely, $170,000, has been excluded as we are informed that these shares were not issued for any tangible consideration. The invested capital, therefore, is represented by the value of the second mortgage bonds outstanding, plus the earned surplus, less the balance of goodwill after deducting therefrom the stated value of the preferred and common shares. We have adopted this basis of arriving at the Invested Capital because the second mortgage bonds appear to represent the owners' equity in the business, the preferred and common shares having been issued without tangible consideration.

On the above basis the percentage of Net Income to Invested Capital is as follows:—

—	Average Invested Capital	Net Income	
		Before Second Mortgage Interest	Percentage to Invested Capital
	$ cts.	$ cts.	%
Year ended December 31, 1933	878,497 06	207,988 00	23·67
" " 1932	840,386 52	53,833 78	6·45
" " 1931	831,020 18	101,206 56	12·17
" " 1930	799,156 11	121,023 54	15·14
" " 1929	740,154 28	146,605 11	19·80
Total	4,089,214 15	630,656 99	15·42
Average for period	817,842 83	126,131 40	15·42

(*b*) To determine the spread between the price paid to the producer of livestock and the price received by the Packer from the sale of the various products manufactured from livestock.

In the case of Wilsil, Limited, practically all the transactions of the Company are represented by the purchase of livestock and its conversion into packing products, so that the spread is represented by the difference between the price paid to the producer and the selling price. This spread, however, covers all the products handled by the Company, and the records of the Company are not designed to show the spread on individual commodities.

In common with other packing establishments Wilsil, Limited, does not maintain a cost system which would enable the actual cost of individual products

to be determined. To secure approximate costs for their own information the officials have "test runs" made from time to time and by the adoption of an average percentage of yield and an average selling price they arrive at the estimated gain or loss on the sale of an average dressed carcass.

In Schedules "1" and "2" we submit particulars of the approximate average yield and average selling price of hogs for the weeks ended March 10 and 17, 1934, based on the result of Company "test runs" which purport to show the gross gain per hundred pounds to be $1.37 and $1.24 respectively. These estimates, however, do not include the costs of killing, cutting or handling, and as they cannot be reconciled in any way with the actual operating results of the Company we feel that they are of little, if any, value in determining the spread.

Due to the impossibility of reconciling the result of the "test runs" made by the Company with the books of account we are unable to determine the spread between the price paid to the individual producer of livestock and the price received by the Packer from the sale of the resulting manufactured products, and we are therefore forced to substitute for this inquiry consideration as to whether the Packer receives a reasonable or an excessive return (*a*) on the capital invested, and (*b*) on the sales made to the public. The information necessary to arrive at a conclusion on these points is submitted in the section of this memorandum dealing with invested capital and sales, the average return shown being 15·42 per cent on invested capital and 1·47 per cent on sales.

As the operations of Wilsil, Limited, during the period under review were confined largely to hogs we did not obtain particulars of a "test run" for beef.

(*c*) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments, (2) stockyards or markets, and (3) truckers, and the percentage which each of these classes bears to the total purchases.

The above information has been secured in connection with hogs for the months of September, 1933, and February and March, 1934, and is submitted in the following summary:—

—	Direct Shipments	Stockyards or Markets	Truckers
	Average Cost per 100 lbs.		
	$ cts.	$ cts.	$ cts.
September, 1933	10 28	10 24	10 03
February, 1934	13 64	13 68	13 22
March, 1934	13 51	13 70	12 72
	Percentage of Total Purchases		
	%	%	%
September, 1933	44·85	50·28	4·87
February, 1934	75·30	22·60	2·10
March, 1934	80·92	16·55	2·53

The prices paid for hogs are stated to be based on the market price for the bacon grade with the following differentials on or off bacon grade:—

Select	Premium of	$1.00 per head above the bacon.
Butcher	Discount of	$1.00 per head below the bacon.
Light	"	0.50 " "
Heavy	"	0.50 " "
Extra Heavy	"	1.50 " "
No. 1 Sow	"	1.50 to $2.00 per head below the bacon.
No. 2 Sow	"	2.00 to $2.50 " "

While the above differentials are generally applied on hog purchases, our examination of purchase invoices showed minor variations, particularly as affecting extra heavy hogs and sows. Prior to March 12, 1934, no discount was applied on the bacon price of local purchases in the case of butcher grades, but we are informed that the Company now applies these differentials on all purchases.

From the records maintained by the Company it is not possible to determine whether the Company gains an additional profit through the operation of the differentials beforementioned. After the hogs are dressed and cut they lose their identity in the plant, and the product is sold at the most advantageous market price.

On all purchases of carload lots the Company pays a commission to the Agent of $10 per car on hogs and $17 per car on cattle coming direct to the plant by rail. Purchases of carload lots on the local market carry a commission based on the following rates:—

	Carload	Mixed	Mixed
Cattle	$15.00		
Calves	12.00	$12.00	$10.00
Hogs	10.00		
Sheep and Lambs	10.00		

The average dressed cost of cattle, veal and lamb for the weeks ended March 10 and 17, 1934, are given below. We were, however, unable to secure the information necessary to enable us to distribute the purchases under the required headings.

	Average Cost per 100 lbs. Week ended March 10, 1934	Average Cost per 100 lbs. Week ended March 17, 1934
Beef	$ 9.20	$ 9.64
Veal	11.55	11.41
Lamb	13.34	11 99

(*d*) To determine the hourly rates of wages paid by the Company, and to prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In the following table we submit information showing the number and percentage of the Company's employees engaged at the various hourly and weekly rates as at March 24, 1934:—

Hourly Rate	Number of Employees	Per Cent of Total
$ .20	38	10·27
.22	6	1·62
.25	21	5·68
.28	14	3·78
.30	69	18·65
.33	19	5·14
.35	36	9·73
.36⅔	6	1·62
.38	10	2·70
.40	12	3·24
.42½	1	·27
.45	8	2·16
.50	16	4·33
·55	1	·27

Weekly Rate	Number of Employees	Per Cent of Total
$10.00	1	·27
15.00	2	·54
16.00	3	·81
18.00	25	6·76
20.00	26	7·03
21.00	4	1·08
22.00	29	7·84
22.50	3	·81
25.00	11	2·97
27.50	1	·27
28.00	1	·27
30.00	5	1·35
35.00	2	·54

None of the Company's employees are on piecework or under any bonus system, and we are informed that no employee is required to "stand-by" in his own time. Our examination of the payrolls over a period did not disclose any evidence to the contrary.

The basis of employment is a 55 hour week and an examination of the payrolls at August 12, 1933, and November 11, 1933, discloses that the rates in force at these dates were substantially the same as those given in the foregoing tabulation as at March 24, 1934.

EXHIBIT "A"

WILSIL LIMITED AND ITS SUBSIDIARY CITY RENDERERS, LIMITED

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1933

ASSETS

Current Assets:		
Cash on hand and in Bank		$ 22,732 71
Accounts receivable	$ 325,705 23	
City of Montreal Unemployment Relief Commission	48,621 65	
	374,326 88	
Less—Reserve for bad debts	34,775 49	
		339,551 39
Export consignments at invoiced prices for which no account sales received	171,759 65	
Less proceeds Sterling drafts drawn against same and sold	150,042 85	
		21,716 80
Inventory of merchandise		302,588 04
Investments at cost		11,914 60
		$ 698,503 54
Investment in Hotel Supply Co., Limited		20,000 00
Deferred and prepaid charges:		
Insurance	3,181 07	
Taxes	5,316 59	
		8,497 66
Fixed Assets:		
Building, machinery and equipment at depreciated replacement value as certified by Canadian Appraisal Company, Limited, December 18, 1928, with subsequent additions to date	1,136,285 40	
Less Depreciation Reserve	281,850 50	
		854,434 90
Goodwill		260,937 27
Total		$ 1,842,373 37

LIABILITIES

Current Liabilities:		
Bank overdraft		$ 55,475 69
Bank loan secured under Section 88 of the Bank Act		50,000 00
Accounts Payable and Accrued Liabilities including provision for Income Tax		96,494 35
Loan payable—Hotel Supply Co., Limited		34,000 00
Interest on Bonds and Preferred Dividend payable		23,660 00
		259,630 04
Mortgage payable, due January 1, 1940		400,000 00
Funded Debt:		
Second Mortgage 6% Bonds due 1949	$ 800,000 00	
Less retired	143,000 00	
		657,000 00
Reserve for condemnation		2,000 00
Capital Stock:		
Preferred, par value $5.00 each:		
Authorized and issued, 16,000 shares	80,000 00	
Common, without nominal or par value:		
Authorized, 50,000 shares		
Issued, 18,000 "	90,000 00	
		170,000 00
Surplus		353,743 33
Contingent Liabilities:		
Future Sterling Exchange sold	£9,509 0 0	
Future U.S. Exchange sold	$ 4,850 00	
Bills under discount	$ 370 64	
Total		$ 1,842,373 37

Exhibit "B"

WILSIL LIMITED AND ITS SUBSIDIARY CITY RENDERERS, LIMITED

Condensed Statement of Operations for the Five Years ended December 31, 1933

—	Year ended Dec. 31, 1933	Per-centage of Sales	Year ended Dec. 31, 1932	Per-centage of Sales	Year ended Dec. 31, 1931	Per-centage of Sales	Year ended Dec. 31, 1930	Per-centage of Sales	Year ended Dec. 31, 1929	Per-centage of Sales
	$ cts.	%	$ cts.	%	$ cts.	%	$ cts.	%	$ cts.	%
Net Sales	5,244,670 97	100·00	4,416,959 77	100·00	5,174,010 58	100·00	5,936,224 66	100·00	6,704,070 60	100·00
Cost of Goods Sold	4,641,777 02	88·50	4,004,394 62	90·66	4,707,648 71	90·99	5,471,629 78	92·17	6,229,926 70	92·93
Gross Margin	602,893 95	11·50	412,565 15	9·34	466,361 87	9·01	464,594 88	7·83	474,143 90	7·07
Operating Expenses	311,567 09	5·94	311,838 09	7·06	314,767 32	6·08	260,620 10	4·39	258,451 46	3·86
Bond and Mortgage Interest	65,550 00	1·25	68,280 89	1·55	69,689 67	1·35	71,040 00	1·20	72,000 00	1·07
Net Operating Profit	225,776 86	4·31	32,446 17	0·73	81,904 88	1·58	132,934 78	2·24	143,692 44	2·14
Other Income:—										
Miscellaneous	1,667 17	0·03	1,660 34	0·03	880 75	0·01	....	....	135 00	......
Management Fee, Hotel Supply Co., Limited	....	....	....	......	6,000 00	0·12	....	......	....	....
	227,444 03	4·34	34,106 51	0·76	88,785 63	1·71	132,934 78	2·24	143,827 44	2·14
Other Expenses:—										
Bad Debts	22,000 00	0·42	17,446 16	0·39	14,500 00	0·28	28,500 00	0·48	13,301 98	0·20
Interest, Discount and Exchange	5,658 41	0·11	6,403 20	0·14	8,595 11	0·16	24,358 68	0·41	23,450 34	0·35
Net Profit or Loss before Income Tax	199,785 62	3·81	10,257 15	0·23	65,690 52	1·27	80,076 10	1 35	107,075 12	1·59
Provision for Income Taxes	33,347 62	0·64	704 26	0·01	10,173 63	0·20	6,092 56	0·10	8,470 01	0·12
Net Income	166,438 00	3·17	9,552 89	0·22	55,516 89	1·07	73,938 54	1·25	98,605 11	1·47

EXHIBIT "C"

WILSIL LIMITED AND ITS SUBSIDIARY CITY RENDERERS, LIMITED

STATEMENT SHOWING PERCENTAGE OF NET INCOME TO INVESTED CAPITAL INCLUDING SECOND MORTGAGE BONDS FOR THE FIVE YEARS ENDED DECEMBER 31, 1933

—	As at December 31					
	1933	1932	1931	1930	1929	Jan. 1, 1929
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Current Assets	698,503 54	536,907 12	525,288 15	637,999 67	889,237 48	705,674 84
Current Liabilities	259,630 04	225,216 90	197,333 37	370,352 95	642,373 07	548,757 29
Net Current Assets	438,873 50	311,690 22	327,954 78	267,646 72	246,864 41	156,917 55
Fixed Assets and Investments	1,156,285 40	1,155,362 06	1,073,915 55	1,053,917 05	971,621 16	934,904 67
Deferred Charges	8,497 66	10,765 82	8,235 09	12,834 43	18,620 24	10,522 20
Tangible Assets (including Deferred Charges)	1,603,656 56	1,477,818 10	1,410,105 42	1,334,398 20	1,237,105 81	1,102,344 42
Deduct:						
Reserves:						
For Condemnation	2,000 00	2,000 00	2,059 91	9,201 71	3,130 04	1,892 69
For Loss on Consignment Sales	.....	10,550 33	.....	.....	.....	.....
Depreciation	281,850 50	228,079 71	164,460 52	106,741 11	54,118 93	.....
Total Reserves	283,850 50	240,630 04	166,520 43	115,942 82	57,248 97	1,892 69
Mortgage Payable January 1, 1940	400,000 00	400,000 00	400,000 00	400,000 00	400,000 00	400,000 00
	683,850 50	640,630 04	566,520 43	515,942 82	457,248 97	401,892 69
Net Tangible Assets at end of Period	919,806 06	837,188 06	843,584 99	818,455 38	779,856 84	700,451 73
Net Tangible Assets at beginning of Period	837,188 06	843,584 99	818,455 38	779,856 84	700,451 73	
	1,756,994 12	1,680,773 05	1,662,040 37	1,598,312 22	1,480,308 57	
Average Invested Capital	878,497 06	840,386 52	831,020 18	799,156 11	740,154 28	
Net Income before 2nd Mortgage Interest	207,988 00	53,833 78	101,206 56	121,023 54	146,605 11	
Percentage of Net Income on Invested Capital before 2nd Mortgage Interest	23·67	6·45	12·17	15·14	19·80	

Schedule "1"

WILSIL LIMITED AND ITS SUBSIDIARY CITY RENDERERS, LIMITED

Statement Showing the Approximate Average Yield and Average Selling Price of Hogs for the Week ended March 10, 1934.

Cost of Average Dressed Hog of 135 Pounds at $14.07 per 100 Pounds........................$ 18 99

Product—Based on "Test Run" March 18, 1933:

	Yield Pounds	Average Selling Price per 100 Pounds	
		$ cts.	$ cts.
2 Trimmed Loins	20	19 73	3 95
2 Trimmed Shoulders	27	15 65	4 23
2 Trimmed Hams	27	20 00	5 40
2 Trimmed Bacon	16	21 00	3 36
Short Feet	2	2 30	0 04
Long Feet	4	9 52	0 38
Spare Ribs	2	8 67	0 17
Bean Pork	2	9 00	0 18
Fat	13	8 30	1 08
Head	8	4 57	0 37
Trimmings	11	12 88	1 42
Tails	....	4 50	....
Kidneys	½	9 39	0 04
Leaf Lard	2½	9 50	0 24
	135		20 86
Gross Gain per Carcass of 135 Pounds			1 87
Gross Gain per 100 Pounds			1 38

Schedule "2"

WILSIL LIMITED AND ITS SUBSIDIARY CITY RENDERERS, LIMITED

Statement Showing the Approximate Average Yield and Average Selling Price of Hogs for the Week ended March 17, 1934.

Cost of Average Dressed Hog of 135 Pounds at $13.79 per 100 Pounds..........................$ 18 61

Product—Based on "Test Run" March 18, 1933:

	Yield Pounds	Average Selling Price per 100 Pounds	
		$ cts.	$ cts.
2 Trimmed Loins	20	19 02	3 90
2 Trimmed Shoulders	27	14 97	4 04
2 Trimmed Hams	27	20 07	5 41
2 Trimmed Bacon	16	21 00	3 36
Short Feet	2	2 68	0 05
Long Meet	4	8 35	0 33
Spare Ribs	2	8 56	0 17
Bean Pork	2	9 00	0 18
Far	13	8 06	1 04
Head	8	4 17	0 33
Trimmings	11	11 89	1 20
Tails	....	4 60	....
Kidneys	½	9 13	0 04
Leaf Lard	2½	9 63	0 24
	135		20 29
Gross Gain on Carcass of 135 Pounds			1 68
Gross Gain per 100 Pounds			1 24

By Mr. Sommerville:

Q. If you would just go ahead with your statement, and read it slowly so we can follow?—A. Capital: Wilsil, Limited, was incorporated on March 27, 1929.

Q. Just five years ago?—A. Yes. With an authorized capital of 16.000 convertible preferred shares of $5.00 each, and 50,000 common shares of no par value. At December 31, 1933, there were issued and outstanding 16,000 convertible preferred shares of $5.00 each and 18,000 common shares with a stated value of $5.00, a total capital of $170,000.00. The preferred shares carry no stipulated dividend rate, but are limited to $1.00 per share in excess of the dividend paid on the common shares and are exchangeable at any time on the basis of two common shares for each share of preferred stock.

Mr. FACTOR: Are there any copies available?

Mr. SOMMERVILLE: We have not. When it came in yesterday it was so long it was impossible to copy it in the time available.

Mr. FACTOR: Will you have it read a little slower then, so we can follow it?

By Mr. Sommerville:

Q. That is to say, when Wilsil Limited organized and issued its capital stock, it issued 16,000 preferred shares, of $5.00 each?—A. Yes.

Q. And 18.000 common shares, having a stated value of $5.00 each; then they were given a value of $5.00 on the books of the company by resolution. The statement would indicate that both the preferred and common stock were issued as a bonus?—A. Since January 1, 1930, dividends have been paid annually to the preferred shares at the rate of $1.00 per share, and for the year ended December 31, 1929, a dividend of 25 cents per share was paid.

Q. That is to say, for the last four amounts the dividend of a dollar a share would be equal to 20 per cent per year?—A. Yes.

Q. For the last four years on preferred shares?

Mr. HEAPS: How much of that was paid up?

Mr. SOMMERVILLE: It was all bonus; the entire preferred and common shares were issued as bonuses.

By Mr. Factor:

Q. I do not quite understand that; a bonus to what, was it not issued and sold to the public?—A. No, it was issued as a bonus to the people who subscribed the bonds.

By Mr. Sommerville:

Q. Perhaps if you will just finish this first paragraph, then we will summarize it and get it very clearly, I think?—A. No dividends have been paid on the outstanding common shares in accordance with the restricted terms of a mortgage agreement now in force.

Q. The existing first mortgage on the property requires that no dividend be paid on common shares until the first mortgage is paid off?—A. Yes. The entire outstanding preferred and common shares were originally issued as a bonus to the subscribers to an issue of 6 per cent second mortgage bonds due on January 1, 1949, in the amount of $800,000.

Q. When this company was incorporated, as at present existing, it was incorporated for the purpose of taking over the assets of a former company?—A. Yes.

Q. Which was in operation?—A. Yes.

Q. And the former company, was that also known as Wilsils Limited?—A. No.

Q. Whatever the name was?

The CHAIRMAN: Two names were combined.

The WITNESS: Yes.

By Mr. Sommerville:

Q. That is to say, when the company was taken over in 1929, the existing firm of Wilsil Limited was taken over by the new company; that is right?—A. Yes.

Q. The existing firm of Wilsil Limited was largely owned by two men, Mr. Wild and Mr. Silcox?—A. Yes.

Q. And the consideration paid for the company was what?—A. You mean the actual consideration? They issued the preferred and common stock.

By the Chairman:

Q. That was 18,000 common, and 16,000 preferred, was it not?—A. Yes.

By Mr. Sommerville:

Q. Yes. And $800,000 of second mortgage bonds?—A. They were turned over, and they assumed the first mortgage.

Q. So that the new company for the assets of the old issued $800,000 of second mortgage bonds, assumed the existing encumbrance of $400,000 upon the old company, and gave as well 16,000 preferred and 18,000 common shares in addition?—A. Yes.

By Mr. Factor:

Q. Who bought the second mortgage bonds; were they sold to the public?—A. They were sold to the public.

By Mr. Sommerville:

Q. Not by the new company?—A. By the syndicate.

Q. By the syndicate?—A. Yes.

Q. And the syndicate turned over the proceeds of that to the shareholders of the old company?—A. Yes.

Q. What was the book value of the assets of the old company when it was taken over?—A. I will give you the exact amount. The appreciation of the assets taken over was $257,929.65.

Q. That is to say, when the old company was taken over the assets of that company were appreciated to the extent of $257,929.65?—A. Yes.

Mr. Heaps: What were the assets?

By Mr. Sommerville:

Q. What were the assets that were appreciated to that amount; what was the value of the assets that were appreciated?—A. Buildings and equipment was appreciated $249,929.65.

By Mr. Factor:

Q. How was that value determined?—A. After appraisal.

By Mr. Sommerville:

Q. Before appraisal they were?—A. $664,975.02.

Q. And they were increased in value by an amount of— —A. $249.929.65.

Q. That would be about 40 per cent?

Mr. Heaps: What did these assets comprise?

By Mr. Sommerville:

Q. First of all, land and buildings?—A. Buildings and equipment.

Q. These are land and buildings. Now then, at that time these lands and buildings were appreciated in value; was there anything appreciated in value?—A. The investments were appreciated $8,000,

Q. So that except for the investments the entire appreciation was applicable to land, buildings and equipment; what was the total value on the books at which these assets were taken over?—A. The net book value was $442,522.08.

By Mr. Factor:

Q. Excluding land and building?—A. No, that is the net book value of all the assets taken over after deducting liabilities.

By Mr. Kennedy (Peace River):

Q. But there was a mortgage against that of $400,000?—A. That is naturally after deducting the mortgage and the other liabilities.

Mr. FACTOR: I thought you told us the net value of land, buildings and equipment was $664,000 odd.

Mr. SOMMERVILLE: That is subject to mortgage.

By Mr. Sommerville:

Q. What was added to bring the value of these assets up to the $800,000 that was paid for them by the issue of these bonds?—A. The appreciation of $257,929.65.

Q. That would not be sufficient to bring up the net value?—A. In addition there was an item of goodwill put in the books of $269,548.27.

Q. And in addition to the depreciation that has already been mentioned, an item of goodwill was set up in the books?—A. Yes.

Q. Amounting to what?—A. $269,548.27.

Q. There was an increase over the net value of the assets that was handed over to the new company. The total amount was goodwill, $269,000—what was that exactly?—A. $269,548.27.

Q. Plus an appreciation in the value of— —A. $257,929.65.

Q. An appreciation in the value of land and buildings and investment of $257,929.65, or a total increase in the value of these two items of— —A. $527,477.92.

Q. When the assets were taken over, they were paid for by the issue of bonds to the extent of $800,000?—A. Yes.

Q. Those bonds were issued to the syndicate that turned over the assets to the new company?—A. Yes.

Q. You say preferred shares and common shares were issued to those who had received the bonds?—A. Yes.

Q. That is, the syndicate?—A. Yes.

Q. Then I presume they were sold by the syndicate some of them distributed among the shareholders of the former company and some sold to the public?—A. Yes.

Mr. FACTOR: As I gather it, the net value of the bonds was $442,522, plus an item of $527,000, making a total of about $969,000?

Mr. SOMMERVILLE: Yes. That is made up of $800,000 of second mortgage bonds plus 18,000 preferred shares and 16,000 common shares.

Mr. KENNEDY (*Peace River*): A mortgage of $400,000.

Mr. SOMMERVILLE: The whole property was subject to an existing mortgage of $400,000.

By Mr. Sommerville:

Q. Will you please proceed with your statement, Mr. Shepherd?—A. Yes.

In Exhibit "A" we submit a consolidated balance sheet of the company at December 31, 1933, based on the audited balance sheet submitted to the shareholders.

Q. Just a minute. Let us see this. On this consolidated balance sheet at December 31, 1933, there is shown to be outstanding by way of obligations the first mortgage of $400,000?—A. Yes.

Q. That is funded debt; a second mortgage of $800,000 which has been reduced in the past five years by $143,000?—A. Yes.

Q. Leaving the net amount of that second mortgage $657,000?—A. Yes.

Q. Then there is shown to be outstanding capital stock preferred $5 shares, 16,000 shares, total $80,000; and common, without nominal or par value, 18,000 shares, having a book value or at least having a resolution value of $5 or $90,000?—A. Yes.

Q. A total of $170,000 of common and preferred shares?—A. Yes.

Q. And there is shown to be a surplus of $313,743.33?—A. Yes.

Q. That is the accumulation, surplus for those years?—A. Yes.

Q. Perhaps we had better proceed with the statement. Will you proceed with the net income?—A. Yes.

Net Income: A condensed statement of the operations for the period from the parent company's inception, March 27, 1929, to December 31, 1933, is submitted in Exhibit "B". It should be noted, however, that the figures for 1929 include the operations for the entire year.

In reviewing the operations, consideration was given to such controllable items of cost as salaries, repairs and depreciation and adjustment of inventories which might have an important bearing on the net income of the company, as reported.

No items of sufficient relative importance were found to warrant adjustment of the earnings, but we are of opinion that the aggregate provision for repairs and depreciation is liberal, representing as it does an amount of $574,269.23 for the period under review, or 54 per cent of the average book value of the depreciable assets.

Q. That is to say, from March, 1929 until the end of 1933?—A. Yes.

Q. The amount of repairs and depreciation charged against profits in that period is $574,269.23?—A. Yes.

Q. And that represents 54 per cent of the average book value of the depreciable assets?—A. Yes.

Q. In five years?—A. Yes.

Q. Less than five years. Your full assets are not recorded yet?—A. The earnings are taken in for the full five years.

Q. That is for the five-year period?—A. Yes.

Q. On that basis your entire assets would be wiped out. The book value of the entire assets would be wiped out in less than another five years?—A. Well, that is not quite a fair assumption, because part of this is repairs.

Q. But on the same basis, if repairs and depreciation continued?—A. Of the $574,000, $281,000 represented depreciation.

Q. You say $281,000 represents depreciation?—A. Yes.

Q. All right. Just continue?—A. Yes. The following comment is submitted on certain items included in the operating statement:—

Sales.—In the following tabulation we submit details of the company's sales for the period under review, together with the percentage which the net income bears to the sales.

Q. Well, you can give us the total?—A. The total average sales for the period. $5,495,187.31; net income, $80,819.28; percentage, 1·47.

Q. That is the average net income each year, after making allowances for depreciation, repairs and other charges?—A. Yes.

Q. Your average net income has been $80,819.28?—A. Yes.

Q. For the five year period?—A. Yes.

Q. Last year, in the year 1933, the net income was $166,438?—A. Yes.

Q. After making provision for depreciation, repairs, etc. of 3·17 per cent, in percentage?—A. Yes.

Q. By the way, just looking at that balance sheet, I observe the inventory in the case of this company is $302,588.04?—A. That is so, yes.

Q. And average sales of $5,495,000. That would indicate that their inventory is turned over about seventeen times a year?—A. Yes, approximately.

Q. A rapidly turning inventory?—A. Yes.

Q. Will you continue?—A. Yes.

Inventories: the inventories appear to be conservatively valued at estimated cost or market, whichever was lower at commencing and closing dates.

Q. That is in their inventories, they take either the market or the cost, whichever is lower?—A. Whichever is lower.

Q. And that has been the practice for some years?—A. Yes. The basis of valuation appears to be the same throughout the period covered by our examination. The figures, therefore, do not call for special comment or adjustment.

Depreciation: The following rates have been used by the company in computing depreciation on fixed assets:—

Buildings, $2\frac{1}{2}$ per cent per annum.
Machinery, 10 per cent per annum.
Stable Equipment, 10 per cent per annum.
Office Furniture, 10 per cent per annum.
Trucks, 25 per cent per annum, for the first year, and 20 per cent per annum thereafter.

Q. By the way, your depreciation has been figured on the increased value that was given to the plant and buildings at the time it was taken over?—A. Yes, on the appraised value.

Q. That was between 35 and 40 per cent above the former value in the former company?—A. Yes, approximately.

Q. Will you proceed?—A. Yes.

Repairs and Renewals: While the annual charges for repairs and renewals appear to be high, we are informed that these expenditures are necessitated by the nature of the business. Our examination of the accounts relating to repairs indicated that of a total expenditure of $276.834.58 over the period of five years approximately $32.000 is in respect of charges which might be regarded as being in the nature of renewals or betterments.

Executive Salaries: The current annual salaries of the executive officers, for three, are as follows—

Q. Just a minute; will you just give us the total of the executives' salaries?—A. $36,500.

By the Chairman:

Q. For the group?—A. For the three.

By Mr. Sommerville:

Q. We will see that it is entered in that way, $36,500 for the three executive officers?—A. Yes.

By Mr. Kennedy (Peace River):

Q. How many are there?—A. Three.

The WITNESS: These annual rates have been in force since 1930. No bonuses are paid to these officers.

Invested Capital: In Exhibit "C" we submit a statement showing the relation which the net income before providing for interests on the second mortgage bonds bears to the average invested capital during the period under review, based on the annual balance sheets and profit and loss accounts as certified to by the company's auditors.

In preparing this tabulation the book value of the preferred and common shares, namely $170.000, has been excluded as we are informed that these shares were not issued for any tangible consideration. The invested capital, therefore, is represented by the value of the second mortgage bonds outstanding, plus the earned surplus, less the balance of goodwill after deducting therefrom the stated value of the preferred and common shares. We have adopted this statement of arriving at the invested capital because the second mortgage bonds appear to represent the owner's equity in the business, the preferred and common shares having been issued without tangible consideration.

By Mr. Factor:

Q. Have you got the amount tabulated there of the net invested capital?—A. Yes, we are just coming to that.

By Mr. Sommerville:

Q. In arriving at this sum of the net invested capital, you have allowed for the goodwill that was entered at $269,000?—A. Yes.

Q. Less the sum of $170,000?—A. Yes.

Q. Of stock, preferred and common, issued?—A. Yes.

Q. So that you allowed in this estimated income for an amount of approximately— —A. $90,000.

Q. $90,000, as representing goodwill?—A. Yes.

Q. And as representaing invested capital?—A. Yes.

By Mr. Factor:

Q. May I ask who got the stock as a bonus? Was it the former owner?—A. The subscribers to the second mortgage bonds.

Q. That is, the subscribers to the second mortgage bonds got stock as bonus?—A. Yes.

By Mr. Sommerville:

Q. While we are on that, let us clear it up. Is it not a fact that a large block of mortgage bonds were given to the former owners, or some of the former owners of the company?—A. The name of one former owner is in the list.

Mr. Young: Did you say "given"?

The Witness: I don't know that.

Mr. Sommerville: Well, in payment of his share in the old company.

The Witness: Yes.

By Mr. Kennedy (Peace River):

Q. On that basis were they distributed?—A. I can't tell you. That was a transaction outside.

By Mr. Sommerville:

Q. Outside of the company. It was a transaction between the syndicate and the former owners of the former business. But at any rate, one of the owners of the former business appears as the owner of bonds to the extent of what?—A. $140,000.

Q. And with that would go a block of preferred and common shares?—A. Presumably.

Q. Will you continue?—A. On the above basis the percentage of net income to invested capital is as follows:—

Q. Just go slowly on this, will you please?—A. Yes.

Q. Taking it year by year?—A. Yes.

Year ended December 31, 1933, average invested capital, $878,497.06; net income before second mortgage interest, $207,988; percentage to invested capital, 23.67 per cent.

Q. That is, the earnings for that year represent 23.67 per cent?—A. On the invested capital.

Q. Will you continue?—A. Year ended December 31, 1932, average invested capital, $840,386.52; net income before second mortgage interest, $53,833.78; percentage to invested capital, 6.45.

By Mr. Factor:

Q. Why do you include the interest on the second mortgage?—A. Because the second mortgage is really invested capital in this case. Year ended December 31, 1931, average invested capital, $831,021.18; net income before second mortgage interest, $101,206.56; percentage to invested capital, 12·17. Year ended December 31, 1930, average invested capital was $799,156.11; net income before second mortgage interest, $121,023.54; percentage to invested capital, 15·14. Year ended December 31, 1929, average invested capital, $740,154.28; net income before second mortgage interest, $146,605.11; percentage to invested capital 19·80. Total average invested capital, $4,089,214.15; net income before second mortgage interest, $630,656.99; percentage to invested capital, 15·42.

By Mr. Sommerville:

Q. Over the five year period?—A. Yes.

Q. Then your average on invested capital over the five year period, for each year, was what?—A. $817,842.83. The average net income was $126,131.40; and the average percentage was 15·42.

Q. After providing for the depreciation to which you have already referred, and the repairs to which you have already referred, this income paid 20 per cent on the preferred shares for five years?—A. Yes.

Q. And in each year, what was the amount of the income that was left for distribution to the common shareholders, or available for distribution to the common shareholders?—A. I have not got the exact figures, year by year, on that.

Q. Well, the average, I mean, for the five years?—A. For the five years?

Q. The average earnings on the common stock?—A. The dividend paid on preferred stock was $68,000, which left $353,743.33, during the five years. A fifth of that would be $70,000 a year.

Q. $70,000 a year?—A. On the common stock.

Q. On 90,000?—A. On 90,000.

Q. So that $70,000 a year on common stock of 90,000 would represent about 70 per cent?—A. 78, approximately.

Q. About 78 per cent of the common stock earnings?—A. Yes.

Q. After payment of 20 per cent a year on the preferred?—A. Yes.

Q. For five years?—A. Yes.

Mr. Factor: That was available. It was not absolutely paid.

Mr. Sommerville: Oh no, available. It could not be paid because of a term in the first mortgage bond that the first mortgage must be paid off before dividends were paid on the common shares.

The Witness: That is so.

By Mr. Sommerville:

Q. Those were the earnings?—A. Yes.

Q. The net earnings of the company after payment of preferred dividends?—A. Yes.

Mr. Kennedy (*Peace River*): What was paid on the preferred?

Mr. Sommerville: 20 per cent, one dollar per year on the $5 shares.

By Mr. Factor:

Q. Have the figures you gave me any relation to net income on investment capital, or do they take into account the payments of dividends on the preferred shares?—A. No; that is earnings before dividends.

Q. Before dividends?—A. Yes.

By Mr. Sommerville:

Q. The statement will show how it is distributed each year. Schedule C. Now, will you just proceed with the second branch of your inquiry?—A. To determine the spread between the price paid the producer of livestock and the price received by the packer from the sale of the various products. In the case of Wilsil, Limited, practically all the transactions of the company are represented by the purchase of livestock and its conversion to packing products, so that the spread is represented by the difference between the price paid to the producer and the selling price. This spread, however, covers all the products handled by the company, and the records of the company are not designed to show the spread on individual commodities. In common with other packing establishments, Wilsil Limited does not maintain a cost system which would enable the actual cost of individual products to be determined. To secure approximate costs for their own information the officials have "test runs," made from time to time, and by the adoption of an average percentage of yield and an average selling price, they arrive at the estimated gain or loss on the sale of an averaged dressed carcass.

In schedules "1" and "2" we submit particulars of the approximate average yield and average selling price of hogs for the weeks ended March 10th, and March 17, 1934, based on the result of company "test runs" which purport to show the gross gain per hundred pounds to be $1.37 and $1.24 respectively.

Q. Just before you come to that, explain to the committee a little more clearly this question, the difficulty of getting the exact cost system in the packing industry, because it will arise in connection with other companies. What is the problem?—A. The problem is to determine just what is the selling value of the individual articles.

Q. Yes?—A. A hog, for instance, may be bought and processed and cut into a large number of different cuts, each of which have a different selling value.

Q. Yes?—A. And it is impossible to determine what the individual hog, which was purchased for a specific price, realized when it was sold.

Q. Is it equally impossible to tell what the actual cost of each operation was in putting it through the plant?—A. Yes, the packers estimate those figures.

Q. The packers estimate those figures?—A. Yes.

Q. Take, for instance, hogs; they go into the killing room, and from the killing room they go into the cutting room to be cut up into various commodities or products?—A. Yes.

Q. They go into the curing room to be cured for various purposes, and portions of them go to the offal department, to the fertilizer department, and other departments, rendering departments and so on, and because of that it is impossible to get the exact cost of each operation?—A. You cannot trace the individual carcass once it gets past that stage.

Q. After the killing room they lose their identity?—A. Yes.

Q. So that after they come in there on an established basis of grading, they lose their identity from the killing room on through the plant?—A. Yes.

Q. That is the difficulty?—A. Yes.

Mr. Senn: Would it not be possible to trace a day's killing?

The Chairman: They make test runs, he says.

The Witness: It might be possible, but they do not do it.

The Chairman: It is not practicable.

The WITNESS: No.

The CHAIRMAN: At least, considered not.

The WITNESS: No.

By Mr. Sommerville:

Q. Now, you say in schedules 1 and 2—I do not know that we need to go through the details of these, but schedules 1 and 2 are statements that are given to you by Wilsil, Limited?—A. Yes.

Q. As their method of arriving at an approximate— —A. Average.

Q. —Average gain from the hogs that are put through—A. On an average selling price?

Q. This is a statement showing the approximate average yield and the average selling price of hogs for the week ended March 10, 1934, and the cost of the average dressed hog, 135 pounds, at 14·07 per hundred pounds dressed, and it was $18.99, and then they break up the various operations of that hog into its various operations and departments and products and show the gross gain per carcass to be $1.87 on a hog of 135 pounds?—A. It should be noted there that that is before the cost of killing, cutting and handling—

Q. And the gross gain per 100 pounds is $1.38?—A. Yes.

Q. From which must be taken the cost of handling, killing, and cutting?—A. Yes.

Q. That is the basis that is given to you?—A. Yes.

Q. That is an indication of the spread subject to these other charges?—A. Well, it is an indication of the spread, yes, an estimate that they have of their own costs.

Q. I see a similar statement on schedule 2 for the week ending March 17, 1934, and there they take the cost of the average dressed hog for the week.

Mr. FACTOR: Give us the name.

By Mr. Sommerville:

Q. To the packer. As I understand it, the packer can tell very closely the dressed costs on the rail after the handling?—A. Yes, that is the basis, yes.

Q. That is the basis of all packing house operations?—A. Yes.

Q. Not the cost of the live animals?—A. No.

Q. But it is the dressed cost; that is his basis, and that is the foundation of all his operations?—A. Yes.

Q. So that he has an average dressed hog of $18.61 for the week of March 17, and he shows gross gain on a carcass of 135 pounds to be $1.68 or a gross gain per 100 pounds of $1.24?—A. Yes.

By Mr. Senn:

Q. There are two ways of disposing of those carcasses, one through the fresh meat trade, and the other through the bacon trade? Which one of those two are the profits estimated on, the bacon trade or the fresh meat trade?—A. On the fresh.

Q. Fresh meat?—A. Yes, that is the one. There is a small amount of bacon in this estimate, but it is mostly fresh.

Q. They are both taken into consideration?—A. Yes.

Mr. SOMMERVILLE: Now, will you proceed?

The WITNESS: These estimates, however, do not include the cost of killing, cutting or handling, and as they cannot be reconciled in any way with the actual operating results of the company, we feel that they are of little, if any value, in determining the spread. Due to the impossibility of reconciling the result of the "test runs" made by the company with the books of accounts, we are unable to determine the spread between the price paid to the individual producer of livestock and the price received by the packer from the sale of the

resulting manufactured products, and we are therefore forced to substitute for this inquiry consideration as to whether the packer receives a reasonable or an excessive return (*a*) on the capital invested, and (*b*) on the sales made to the public. The information necessary to arrive at a conclusion on these points is submitted in the section of this memorandum dealing with invested capital and sales, the average return shown being 15·42 per cent on invested capital, and 1·47 per cent on sales.

As the operations of Wilsil, Limited, during the period were confined largely to hogs, we did not obtain particulars of a test run for beef.

By Mr. Sommerville:

Q. On the basis on which you have taken the average return on invested capital, you have taken the average net return?—A. After allowing for all expenses.

Q. After allowing for all expenses?—A. Yes.

Q. May not some of the departments, for instance, for the purpose of argument the bacon department, show a substantial profit, while the beef department may show a loss, and the net result is reflected only in the net income?—A. That is so.

Q. And therefore this basis does not give you an accurate statement of the spread between the costs paid and the costs received?—A. Except on all the products handled.

Mr. Factor: You cannot separate them.

The Witness: You cannot separate them.

By Mr. Sommerville:

Q. In other words, if any company desired to do so, and were making a large profit on the bacon end of their business, they might easily take a substantial loss of beef, for the purpose of extending that end of the business?—A. Yes, they might.

Q. There is no way of checking that in their net return?—A. In this particular company, no; in the larger companies, it might be done.

Mr. Factor: On the sales it shows 1·47 per cent?

The Witness: Yes.

Mr. Sommerville: Will you proceed?

The Witness: (C). To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments, (2) stockyards or markets and (3) truckers, and the percentage which each of these classes bears to the total purchases.

The above intimation has been secured in connection with hogs for the month of September, 1933, and February and March, 1934, and is submitted in the following summary.

Mr. Sommerville: Just before you submit that, I think I should distribute to the committee a composite picture of those various figures in the various plants examined, so that the committee might have this information before them.

The Chairman: You had better put these in now.

By Mr. Sommerville:

Q. You are now submitting a comparative summary of average dressed costs of hogs, classified as to source of supplier, for the months of September and December, 1933, and March, 1934?—A. Yes.

Q. From Canada Packers, Limited, Swift Canadian Company, Limited, Wilsil's Limited, and Gainers, Limited?—A. Yes.

INVESTIGATION OF PACKING COMPANIES

Comparative Summary of Average Dressed Costs of Hogs, Classified as to Source of Supplier, for the months of September and December, 1933 and March, 1934

—	Canadian Packers, Limited					Swift Canadian Co., Ltd.		Wilsils, Ltd.	Gainers, Ltd.
	Toronto	Montreal	Winnipeg	Hull	Peterborough	Toronto	Edmonton	Montreal	Edmonton
	$	$	$ cts.	$ cts.	$ cts.	$ cts.*	$ cts.*	$ cts.†	$ cts.
September, 1933—									
Direct Shipments	9 52	9 92	8 77	9 83	9 78	9 83	8 07	10 28	7 49
Stockyards or Markets	9 46	10 07	9 08	....	....	9 49	8 27	10 24	7 96
Truckers	9 22	9 63	8 82	9 39	9 31	9 44	8 07	10 03	7 38
Test lots	....	....	....	....	....	9 74	....	....	....
December, 1933—									
Direct Shipments	8 76	9 25	8 04	8 95	9 02	8 86	7 42	....	6 64
Stockyards or Markets	8 77	8 92	7 86	....	....	8 93	6 74	....	7 61
Truckers	8 64	8 93	7 92	8 55	8 69	8 60	7 10	....	6 81
Test lots	....	....	....	....	....	8 36	....	....	....
March, 1934—									
Direct Shipments	12 10	12 75	12 40	12 43	12 72	12 56	11 39	13 51	10 81
Stockyards or Markets	12 25	12 73	12 00	....	....	12 33	11 24	13 70	11 40
Truckers	11 85	12 10	11 61	12 05	11 87	12 07	11 08	12 72	10 10
Test lots	....	....	....	....	....	12 49	....	....	....

*The costs developed for the Swift Canadian Company Limited are not comparable with those of other companies, as the costs of the Swift Canadian Company, Ltd. exclude certain lower grade hogs, thus increasing the costs of the balance of the year.

†Based on a yield test made March 18th, 1933.

By Mr. Factor:

Q. Why did you take those months?—A. We just chose them at random for comparative purposes. We obviously had to take some months in which—

Q. No particular significance is attached to them?—A. No.

By Mr. Sommerville:

Q. This statement shows the dressed cost of the hog on the rail in each of those plants for the entire month that is represented there, or four weeks of a month?—A. Yes.

Q. And it shows the difference between the cost of hogs that came in by direct shipments by rail to the plant. In the first line they came in through the stockyard each month, and the second and third they came from the truckers?—A. Yes.

Q. These are the differences, are they not?—A. Yes.

Q. Now, in the case of Wilsil's—we will deal with each of the firms in turn as we come to their statement—will you just continue with your narrative?—A. The above information has been secured in connection with hogs for the month of September, 1933, and February and March, 1934, and is submitted in the following summary. Average cost per hundred pounds, September, 1933. $10.28, stockyard $10.24, truckers $10.03.

Mr. FACTOR: May I ask you if you know what the cost would be for dressing the hogs?

The WITNESS: We have not got that for Wilsil's.

Mr. KENNEDY (*Peace River*): It would be the same in each case.

The WITNESS: Not necessarily.

Mr. SOMMERVILLE: Very close.

Mr. SENN: You just count the labour involved, or do you include the shrink as well.

Mr. FACTOR: Labour and shrink, the difference between the live hog and the hog on the rail?

The WITNESS: You mean, just the shrink?

Mr. SOMMERVILLE: The whole thing, the whole cost.

The WITNESS: Right through to the point where it is distributed to the public, sold to the public?

By Mr. Sommerville:

Q. No. What are the elements that enter into the costs between the live hog and the dressed hog?—A. On the rail?

Q. On the rail. There is, first of all, shrink?—A. 25 to 30 per cent on the shrink.

Q. I think the proportion given by Canada Packers was something like that—77 per cent.—A. That would be 23 per cent.

Mr. SENN: The shrink would vary between the off car price and the fed and watered price?

Mr. SOMMERVILLE: The average.

The WITNESS: The percentage of yield for Wilsil's, is 73.01 truckers, 72.28 for market and 79.39 for shipments.

Mr. SOMMERVILLE: Direct shipments?

The WITNESS: Yes.

Mr. SOMMERVILLE: The average would be 75?

The WITNESS: Yes.

Mr. SENN: Is that based on the off car price, or on the fed and watered price?

Mr. SOMMERVILLE: It would not make any difference, because they take whatever the cost is. They take the cost and the shrink and the cost of handling in each case.

Mr. SENN: The price off car is always higher than the fed and watered price.

Mr. SOMMERVILLE: That would be reflected here on the dressed cost of the hogs off cars. There would be, first of all, the shrink on those cars and there would be the cost of operating those hogs, and then there would be, in the case of the hogs in the stockyard, the same consideration, the price paid, the shrink and the cost of operating and the cost of truckers.

Mr. SENN: That is right so far as shrink itself goes.

Mr. SOMMERVILLE: The shrink is taken out in each case.

The WITNESS: That is why the percentage differs.

By Mr. Sommerville:

Q. The witness has indicated that in the figures referred to. The shrink is different in each case. At any rate, this is the difference in the dressed cost on the rail from these three sources?—A. We got down to, I think, March.

Q. February?—A. Yes. Direct shipments $13.64; stockyards $13.68, truckers $13.22. March, $13.57; stockyards $13.70; truckers $12.72.

Q. Now, at this point, in March 1934, a new system was adopted of paying for hogs on the Montreal market by Wilsil's. Up to that time they had been sold on the Montreal market flat. Now, a differential operates. Is that not the fact?—A. May I read the report on that? There are some little differences. While the above differentials are generally applied on hog purchases, our examination of purchase invoices showed minor variations, particularly as affecting extra heavy hogs and sows. Prior to March 12, 1934, no discount was applied on the bacon price of local purchases in the case of butcher grades, but we are informed that the company now applies these differentials on all purchases. From the records maintained by the company it is not possible to determine whether the company gains an additional profit through the operation of the differential before mentioned. After the hogs are dressed and cut, they lose their identity at the plant, and the property is sold at the most advantageous market price.

Q. The total purchased by truck was comparatively small?—A. Yes, 4·87 per cent, 2·10 per cent and 2·53 per cent.

Q. Through the stockyards the purchases were much larger?—A. 50·28 per cent, 22·60 per cent, and 16·55 per cent.

Q. And the direct shipments?—A. 44·85 per cent, 75·30 per cent, and 80·92 per cent.

Q. That is to say from September 1933 to March 1934 the direct shipments have increased from 44·85 per cent to 80·92 per cent?—A. Yes.

Q. Nearly double?—A. Yes.

Q. Did you find, Mr. Shepherd, in your examination whether or not that increase was due to the fact that there was a controversy going on between the commission men at Montreal who insisted on selling flat, as against the buyers who were endeavouring to introduce the differential in Montreal in that month?—A. No, I do not know that.

Q. You could not tell that?—A. No.

Q. I see that very large increase is occurring in the month in which the controversy took place. We had evidence of it here already?

By Mr. Senn:

Q. You could not tell, I suppose, whether a good deal of that source of supply was from the west—from the St. Boniface stockyards at Winnipeg?—A. No.

Q. Whether they would be purchased on the stockyards there and delivered as direct shipment?—A. On these western shipments, of course, we cannot tell from which section of the west each comes.

Q. In that case they would probably be purchased on the stock markets of the west, and would be considered as direct shipments to Montreal?—A. They might be Alberta Pool hogs.

By Mr. Sommerville:

Q. They operate in Alberta pool hogs, not buying on the stockyards at all. Yes, Mr. Shepherd?—A. The prices paid for hogs are stated to be based on the market price for the bacon grade with the following differentials on or off the bacon grade.

Q. Then there were the fixed differentials you have referred to?—A. Yes.

Q. And these differentials were that you take off 50 cents per head for lights and heavies, \$1.50 for extra heavies, \$1.50 to \$2 for No. 1 sows, and from \$2 to \$2.50 for No. 2 sows?—A. Yes. From the records maintained by the company, it is not possible to determine whether the company gains an additional profit through the operation of the differentials before mentioned. After the hogs are dressed and cut, they lose their indentity in the plant, and the product is sold at the most advantageous market price.

Q. Yes. That is, these differentials are differentials which are fixed for purposes of settlement?—A. Exactly.

Q. And as soon as they pass through the killing room—? Their identity is lost. They are not kept separate?—A. No.

Q. It is impossible, therefore, to tell what is the effect of the differentials in dollars and cents?—A. Exactly.

Q. The differential would have the effect of reducing the whole price paid for the entire load, depending on the quality?—A. It depends on the grades. On all purchases of carload lots the company pays a commission to the agent of \$10 per car on hogs and \$17 per car on cattle coming direct to the plant by rail. Purchases of carload lots on the local market carry a commission based on the following rates:—

Carload	—	Mixed	Mixed
	\$ cts.	\$ cts.	\$ cts.
Cattle	15 00	....	....
Calves	12 00		
Hogs	10 00	12 00	10 00
Sheep and lamb	10 00		

The average dressed cost of cattle, veal and lamb for the weeks ended March 10 and 17, 1934, are given below. We were, however, unable to secure the information necessary to enable us to distribute the purchases under the required headings.

—	Week ended Mar. 10,1934 Average cost per 100 pounds	Week ended Mar. 17,1934 Average cost per 100 pounds
	\$ cts.	\$ cts.
Beef	9 20	9 64
Veal	11 55	11 41
Lamb	13 34	11 99

Q. Before leaving that branch of your subject, you refer to the fact that this company pays a commission to the agents who ship direct; have this company agents in the field who buy for them, as ordinarily the farmer pays the commission?—A. I do not know that.

Q. It might be a commission or allowance to a drover; I just wanted to know what information you had on that?—A. We will try and get that.

Q. Yes. Thank you. What next?—A. —(d) To determine the hourly rates of wages paid by the company, and to prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In the following table we submit information showing the number and percentage of the company's employees engaged at the various hourly and weekly rates as at March 24, 1934. At an hourly rate of 20 cents there were 38 employees, or 10·27 per cent of the total.

Q. Now just a minute; I have here a consolidated statement showing the wages in a number of these different plants. One might refer to each company as one comes to it. (Printed as Appendix No. 1 to this day's evidence.)

By Mr. Factor:

Q. In calculating the hourly rate, that does not show the actual earnings made by the employees?—A. Well, we give in the report the weekly hour basis of 48 hours usually.

By Mr. Sommerville:

Q. In Wilsil's it is a 55 hour week?—A. Oh yes, we will come to that.

By Mr. Factor:

Q. Does the statement you have prepared show the actual weekly earnings? —A. No, it shows the rates and the percentage of the employees at that rate to the total employees.

By Mr. Kennedy (Peace River):

Q. It does not show the hours per week and the actual earnings of the employees?—A. No.

Q. It just estimates that work on an average week?—A. Yes.

By Mr. Sommerville:

Q. Assuming they worked a full week their earnings would work out on the basis you indicate here?—A. Yes.

By Mr. Heaps:

Q. Might I ask if the averages here include both male and female?—A. Yes.

Q. You have lumped them together?—A. Yes.

By Mr. Sommerville:

Q. The last column in the consolidated statement just furnished, indicates Wilsil's Limited wage scale for 370 employees?—A. Yes.

Q. Of whom 257 are on an hourly basis and 113 on a weekly basis?—A. Yes.

Q. And then you indicate that there are 38 employees who are paid 20 cents an hour—if you look at your report you will find it?—A. Yes, 38 cents.

Q. And that represents 10·27 per cent of the total?—A. Yes.

Q. And this is indicated on an hourly basis?—A. Yes.

Q. Just run through that schedule?—A. From the report?

Q. Yes?

Hourly Rate	Number of Employees	Percentage of Total
$0·20	38	10·27
·22	6	1·62

By Mr. Heaps:

Q. These will be female employees I presume?—A. I can't say as to that, I think they are at these lower rates.

Continuing the statement:

Hourly Rate	Number of Employees	Percentage of Total
$0·25	21	5·68
·28	14	3·78
·30	69	18·65
·33	19	5·14
·35	36	9·73
·36⅔	6	1·62
·38	10	2·70
·40	12	3·24
·42½	1	·27
·45	8	2·15
·50	16	4·33
·55	1	·27

Weekly Rate	Number of Employees	Percentage of Total
$10.00	1	·27
15.00	2	·54
16.00	3	·81
18.00	25	6·76
20.00	26	7·03
21.00	4	1·08
22.00	29	7·84
22.50	3	·81
25.00	11	2·97
27.50	1	·27
28.00	1	·27
30.00	5	1·35
35.00	2	·54

By Mr. Heaps:

Q. Have you got the salaries of the officials too?—A. We have given those.

Mr. SOMMERVILLE: Yes, they are in. Now, the average for the hourly rate is apparently 31·5 cents per hour over the entire 257 employees who are paid on an hourly basis; and the average for the weekly rate is $15.41 for the entire 113 employees.

By Mr. Senn:

Q. May I ask: are these weekly rates the actual earnings or, at the rate?—A. At the rate.

The WITNESS: Mr. Sommerville, that last figure you gave is not the average.

By Mr. Sommerville:

Q. $15.41?—A. No.

Q. I beg your pardon, no; the average is—?—A. We did not develop that.

By Mr. Heaps:

Q. Have you got the—?

Mr. SOMMERVILLE: I am sorry, Mr. Senn was asking a question.

By Mr. Senn:

Q. I just asked if these weekly wages were the actual earnings, or is it an estimate at the hourly rate—A. It is an estimate at the hourly rate.

By Mr. Sommerville:

Q. Now, Mr. Shepherd, you are referring to two different things; the weekly rate is not an estimate?—A. No. And these are not estimates, the hourly rates are the rates at which they are being paid. The big schedule with some 3,000 employees, for all these companies, is on the basis of the actual amounts they are paid; to show them in detail would not be comprehensible, there would be too much to it.

By Mr. Heaps:

Q. Have you the total amount of wages paid per annum?—A. It can be got from the operating statements.

By Mr. Sommerville:

Q. It may be that you have that in some total form, have you, Mr. Hudson?—A. We can give it to you for the week—in the total payroll.

Mr. HEAPS: Of course, that would not give us what we wanted to know.

The CHAIRMAN: No.

By Mr. Sommerville:

Q. Let us see what that is for the week—what week have you?—A. The week ended the 24th March, 1934.

Q. That is the week now under review?—A. Yes.

Q. What is the amount?—A. A total of $6,406.06.

By Mr. Heaps:

Q. To make sure that we get that statement: does that include the categories you have just enumerated to us this morning?—A. Yes, that $6,000 figure.

The CHAIRMAN: Just a little less than $18 a week?

Mr. EDWARDS: Yes, a little less than that.

By Mr. Sommerville:

Q. What is the total?—A. For direct labor in the plant $386,807.28—that would not include office salaries, management or anything of that kind.

By Mr. Heaps:

Q. For how many employees?—A. On the 24th March it was 370.

Q. What was the average for the year; would that be a fair average for the year?—A. I really could not say, we did not take that.

By Mr. Senn:

Q. That does not include buyers and salesmen?—A. Just the plant.

By Mr. Heaps:

Q. Might I ask if in addition to the wages and salaries received any other consideration is given to the employees?—A. No, we are just coming to that I think.

The CHAIRMAN: That amounts to $20 a week over the year, average.

The WITNESS: None of the Company's employees are on piecework or under any bonus system, and we are informed that no employee is required to "stand-by" in his own time. Our examination of the payrolls over a period did not disclose any evidence to the contrary.

The basis of employment is a 55 hour week and an examination of the payrolls at August 12, 1933 and November 11, 1933, discloses that the rates in force at these dates were substantially the same as those given in the foregoing tabulation as at March 24, 1934.

By Mr. Sommerville:

Q. Were there any other questions members of the committee desire to ask before we go further.

Mr. Kennedy (*Peace River*): Have you got the salaries of the executives, that $36,500?

The Chairman: I do not think it is necessary, if the committee are agreed as to it, I think it will be probably desirable not to give particulars of those salaries.

Mr. Kennedy (*Peace River*): If we did, we would just be treating one company the same as we treated another.

The Chairman: The reason that information was disclosed in connection with the tobacco companies was that it was filed by them, together with the large bonuses that were paid, and these bonuses were of such a very high character that I ruled here that the matter should be disclosed. But in connection with the salaries of ordinary executives I do not see where there is anything to be gained. We show in this statement the amount paid for executive salaries.

Mr. Kennedy (*Peace River*): I wanted to ask a question about the salaries of the Board and the salaries of the plants.

The Chairman: I would ask Mr. Kennedy if he would be good enough not to press for detailed information.

Mr. Kennedy (*Peace River*): I am not asking for the salaries of individuals in this case, but rather the total salary list.

The Chairman: That is given.

Mr. Sommerville: The total salary list.

The Witness: These are just of the executives.

Mr. Sommerville: The total salary list and the number on a salary.

The Chairman: There is no objection to that at all.

The Witness: We can give you the total, but not the number; for 1933 it is $127,649.12.

By Mr. Factor:

Q. Does that include the $36,000?—A. Yes.

By Mr. Heaps:

Q. How many would be receiving that?—A. I could not tell you that, I have not the number.

By Mr. Kennedy (Peace River):

Q. Is that in addition to the $386,000 wages?—A. That was wages, from the list.

Q. This is in addition?—A. Yes.

By Mr. Sommerville:

Q. That would probably cover the class that was referred to as buyers?—A. Yes, it does.

By the Chairman:

Q. Office staff?—A. Yes, sir.

By Mr. Factor:

Q. And he did give us there the chief executives, their total salaries?—A. Yes.

By Mr. Kennnedy (Peace River):

Q. And no bonuses?—A. No.

Q. Might I ask you this, though: were there any wage reductions during the last three or four years, since 1931?—A. Let us see now.

Q. In either the weekly rates or the hourly rates?—A. As far back as August, 1933, they were the same rates.

Q. August, 1933?—A. Yes.

By Mr. Sommerville:

Q. They were the same rates?—A. Yes.

Q. Have you any information of reduction, in the year 1931 or 1932, in the rates?—A. No, I have not.

Q. You have not any evidence of that?—A. We may be able to find that.

Q. Will you just make a note of that, to look it up in the recess, that we may have it?—A. Yes.

Mr. KENNEDY (*Peace River*): Could they give us information as to salaries increased or decreased, wages reduced or increased? I would like the same information as about salaries. They would be treated the same.

The WITNESS: Well, we have the executives' salaries. They are unchanged.

By Mr. Kennnedy (Peace River):

Q. Since 1929?—A. I think that is what it says: "These annual rates have been in force since 1930."

Mr. KENNEDY (*Peace River*): They are better off than members of parliament.

By Mr. Factor:

Q. What salaries are those?—A. That is executives' salaries.

Q. They have not changed since 1929?—A. 1930.

Q. But you have no information as to wages?

The CHAIRMAN: Let us get on to the next one.

By Mr. Sommerville:

Q. Will you let us have another independent plant, Gainers Limited?—A. Do you want me to give the objectives of the investigation?

Q. No, I think not?—A. They are the same.

Q. Gainers Limited is a plant that is operating at Edmonton, in the province of Alberta?—A. Yes.

Q. Will you just proceed with your statement in regard to that?

MEMORANDUM *RE* GAINERS LIMITED

In the following paragraphs we submit certain information prepared from the certified accounts of the Company's auditors, from the books and records of without independent confirmation of the accounts.

The scope of our investigation, which is outlined in general terms in the Resolution of Parliament, may be divided into the following specific enquiries:—

(*a*) To ascertain the Net Income earned on the capital invested in the Company after eliminating extraneous charges or credits to operations, if any.

(*b*) To determine the spread between the price paid to the producer of livestock and the price received by the Packer from the sale of the various products manufactured from livestock.
(*c*) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments (2) stockyards or markets, and (3) truckers, and the percentage which each of these classes bears to the total purchases.
(*d*) To determine the hourly rates of wages paid by the Company and prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In support of the information included in the memorandum we submit the following statements:—

Exhibit " A "—Balance Sheet as at September 30, 1933.
Exhibit " B "—Condensed Statement of Operations for the five years ended September 30, 1933.
Exhibit " C "—Statement showing percentage of Net Income to Invested Capital for the five years ended September 30, 1933.
(*a*) To ascertain the Net Income earned on the capital invested in the Company after eliminating extraneous charges or credits to operations, if any.

Capital.—Gainers Limited was incorporated on September 29, 1922 under the laws of the Province of Alberta, with an authorized capital of $75,000 divided into 750 shares of $100 each. The authorized capital was subsequently increased as follows:—

On Sept. 26, 1912,	increased to	$150,000 00
April 11, 1925	"	250,000 00
Aug. 17, 1928	"	350,000 00
Dec. 2, 1930	"	500,000 00

At September 30, 1933, there were issued and outstanding 3,902 shares, a total capital of $390,200.

Cash and stock dividends were distributed to shareholders during the period under review, as shown in the undernoted summary.

Year ended	Dividends distributed to shareholders			
	Cash		Stock	
	Amount	Percentage of capital	Amount	Percentage of capital
	$ cts.	%	$ cts.	%
September 30, 1929	15,234 00	6	25,390 00	10
" 1930	18,544 00	6	17,300 00	6
" 1931	19,980 00	6	28,500 00	9
" 1932	21,804 00	6	....	....
" 1933	23,020 00	6	14,100 00	4

In Exhibit " A " we submit a Balance Sheet of the Company at September 30, 1933, based on the audited Balance Sheet submitted to the shareholders.

Net Income.—A condensed statement of the operations for the five years ended September 30, 1933, is submitted in Exhibit " B."

In reviewing the operations consideration was given to such controllable items of cost as salaries, repairs and depreciation and adjustment of inventories which might have an important bearing on the Net Income of the Company, as reported.

No items of sufficient relative importance were found to warrant adjustment of the earnings.

The following comment is submitted on certain items included in the operating statement:

Sales:—In the following tabulation we submit details of the Company's sales for the period under review, together with the percentages which the net income bears to the sales.

Period	Sales	Net Income	Percentage
	$ cts.	$ cts.	%
Year ended September 30, 1929	2,448,375 06	40,401 41	1·65
Year ended September 30, 1930	2,352,820 55	54,508 97	2·32
Year ended September 30, 1931	1,917,311 31	29,456 77	1·54
Year ended September 30, 1932	1,644,949 46	32,852 51	2·00
Year ended September 30, 1933	1,534,776 46	36,521 59	2·38
Total	9,898,232 84	193,741 25	1·96
Average for period	1,979,646 57	38,748 25	1·96

Inventories:—We are informed that the basis of pricing the inventories during the period under review was the estimated cost of the raw constituents without the addition of labour and overhead costs, but, from the records at our disposal, we were unable to confirm this statement.

Repairs and Renewals:—A general survey of the charges for repairs and renewals included in the operating accounts indicated that the amount was reasonable considering the age of the plant which, with the exception of recent additions, is of frame construction.

Depreciation:—The value of land and buildings is combined in one account on the books of the Company and we are therefore unable to ascertain the actual rate of depreciation on buildings. During the period under review the Company has varied the rates and basis of depreciation on its various assets frequently, and therefore the rates used in any one period have little, if any, significance. In the following tabulation we show the average rate of depreciation charged by the Company, based on the average book values, during the period under review:

	Per cent
Buildings (based on combined book value of land and buildings) largely of frame construction	4·4
Plant and equipment	8·2
Trucks	17·1

Executive Salaries:—The salaries and bonuses paid to five Executive Officers for the year ended September 30, 1933, was $23,100.00.

There were no material changes in the salaries and bonuses paid during the five years under review.

Invested Capital:—In Exhibit "C" we submit a statement showing the relation which the Net Income bears to the average invested capital for the five years ended September 30, 1933, based on the annual Balance Sheets and Profit and Loss Accounts as certified to by the Company's auditors. The following table shows the percentage of Net Income to Invested Capital:

Year ended	Net Income		
	Average Invested Capital	Amount	Percentage to Invested Capital
	$ cts.	$ cts.	%
September 30, 1929	322,268 65	40,401 41	12·54
" 1930	366,139 84	54,508 97	14·89
" 1931	398,310 71	29,456 77	7·40
" 1932	418,323 35	32,852 51	7·85
" 1933	436,948 40	36,521 59	8·36
Total	1,941,990 95	193,741 25	9·98
Average for period	388,398 19	38,748 25	9·98
Share Dividends	160,000 00		
	228,398 00		

(*b*) To determine the spread between the price paid to the producer of live stock and the price received by the Packer from the sale of the various products manufactured from live stock.

In the case of Gainers Limited, the transactions are represented by the purchase of live stock and its conversion into dressed meats and packed products, so that the spread is represented by the difference between the price paid to the producer and the selling price. This spread, however, covers all the products handled by the Company, and the records of the Company are not designed to show the spread in individual commodities.

In common with other packing establishments, Gainers Limited does not maintain a system which would enable the cost of individual products to be determined, and no records are available from which the selling price of all the products of a live animal can be ascertained.

For the above reasons we are unable to determine the spread between the price paid to the individual producer of live stock and the price received by the Packer from the sale of the resulting products, and we are, therefore, forced to substitute for this enquiry consideration as to whether the Packer receives a reasonable or an excessive return (*a*) on the capital invested, and (*b*) on the sales made to the public. The information necessary to arrive at a conclusion on these points is submitted in the section of this memorandum dealing with invested capital and sales, the average return shown being 9·98% on invested capital and 1·96% on sales.

(*c*) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments (2) stockyards or markets and (3) truckers, and the percentage which each of these classes bears to the total purchases.

In the following tabulation we submit particulars of the average cost per 100 lbs. dressed weight of hogs based on the Company's figures after applying thereto 4% representing the shrinkage between warm and shrunk weight:

—	Direct Shipments	Stockyards or Markets	Truckers
	Average Cost per 100 lbs. Dressed Weight	Average Cost per 100 lbs. Dressed Weight	Average Cost per 100 lbs. Dressed Weight
	$ cts.	$ cts.	$ cts.
September 1933	7 49	7 96	7 58
December 1933	6 64	7 61	6 81
March 1934	10 81	11 40	10 19
	Percentage of Total Killed		
	%	%	%
September, 1933	6·3	2·4	91·3
December, 1933	9·8	3·4	86·8
March, 1934	14·8	8·8	76·4

The current prices paid for hogs are stated to be based on the market price for the bacon grade with the following differentials on or off bacon grade:

Select—Premium of 50 cents per 100 lbs. above the bacon.
Butcher—Discount of 50 cents per 100 lbs. below the bacon.
Light and Shop—Discount of $1 per 100 lbs. below the bacon. (Optional.)
Heavy—Discount of $1.25 per 100 lbs. below the bacon.
Extra Heavy—Discount of $2 per 100 lbs. below the bacon.
Rough—Discount of $3.50 per 100 lbs. below the bacon.
Smooth Sows—Discount of $2.50 per 100 lbs. below the bacon.
All other Sows—Discount of $3 per 100 lbs. below the bacon.
Stags—Discount varies.
Cripples—Discount of $2.50 per 100 lbs. below the bacon.

From the records maintained by the Company it is not possible to determine whether the Company gains an additional profit through the operation of the differentials before mentioned. After the hogs are dressed and cut they lose their identity in the plant, and the product is sold at the most advantageous market price.

The Company does not maintain any records from which we can ascertain the dressed cost of cattle and small stock, but we submit in the following summary the percentages which the purchases of cattle and small stock from stockyards and markets bear to the total purchases during the months of September 1933, December 1933 and March 1934.

—	Percentage of Total Purchases	
	Stockyards	Truckers
	%	%
Cattle and Calves:—		
September, 1933	51·43	48·57
December, 1933	47·22	52·78
March, 1934	28·59	71·41
Sheep and Lambs:—	%	%
September, 1933	15·96	84·04
December, 1933	22·03	77·97
March, 1934	20·51	79·49

(*d*) To determine the hourly rates of wages paid by the Company, and to prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In the following table we submit information showing the number and percentage of the Company's employees engaged at the various hourly and weekly rates as a March 31, 1934.

Hourly Rate	Number of Employees	% of Total
cts.		
$17\frac{1}{2}$	1	62
20	5	3·11
22	1	0·62
$22\frac{1}{2}$	5	3·11
25	5	3·11
$26\frac{1}{2}$	8	4·97
27	2	1·24
$27\frac{1}{2}$	3	1·86
$29\frac{1}{4}$	3	1·86
30	14	8·70
31–35	33	20·51
36–40	14	8·70
40–45	23	14·29
46–50	10	6·21
51–55	8	4·97
56–60	4	2·48
61–65	4	2·48
70–75	3	1·86
	146	

Weekly Rate $ c	Number of Employees	% of Total
7 27	1	0·62
16 18	2	1·24
17 31	1	0·62
18 45	1	0·62
19 60	1	0 62
23 07	1	0·62
25 01–30 00	2	1 24
30 01–35 00	2	1·24
35 01–40 00	4	2·48
	15	

None of the Company's employees are on piecework or under any bonus system, and we are informed that no employee is required to "standby" in his own time. Our examination of the payrolls over a period did not disclose any evidence to the contrary.

Effective January 1, 1932, wages were subjected to a general reduction of 10 per cent. An examination of payrolls subsequent to that date did not disclose any material change in the rates of wages.

EXHIBIT "A"

GAINERS LIMITED

Balance Sheet as at September 30, 1933

Assets

	$ cts.	$ cts.
Current Assets:		
Cash on Hand, in Banks and in Transit		$ 14,659 91
Accounts Receivable	120,926 28	
Less Reserve for Doubtful Accounts	22,998 99	97,927 29
Inventories		152,438 28
Total Current Assets		265,025 48
Prepaid Expenses		540 21
Fixed Assets:		
Land, Buildings, Plant and Equipment, at cost:		
Land and Buildings	248,854 00	
Plant and Equipment	161,771 31	
	410,625 31	
Less Reserve for Depreciation	119,744 24	290,881 07
Total		556,446 76

Liabilities

Current Liabilities:		
Due to Bankers:		
Demand Loans—Secured		17,500 00
Current Account—Overdraft		11,647 36
		29,147 36
Accounts Payable		30,749 55
Wages and Salaries		17,400 65
Reserve for Income Taxes		8,000 00
Total Current Liabilities		85,297 56
Mortgage Payable—6%		25,000 00
Capital Stock:		
Authorized—5,000 shares of $100.00 each	$ 500,000 00	
Issued—3,902 shares of $100.00 each		390,200 00
Surplus		55,949 20
Total		$ 556,446 76

EXHIBIT "B"

GAINERS LIMITED

CONDENSED STATEMENTS OF OPERATIONS FOR THE FIVE YEARS ENDED SEPTEMPER 30, 1933

—	Year ended Sept. 30, 1933	Percentage of Sales	Year ended Sept. 30, 1932	Percentage of Sales	Year ended Sept. 30, 1931	Percentage of Sales	Year ended Sept. 30, 1930	Percentage of Sales	Year ended Sept. 30, 1929	Percentage of Sales
	$ cts.	%	$ cts.	%	$ cts.	%	$ cts.	%	$ cts.	%
Net Sales	1,534,776 46	100·00	1,644,949 46	100·00	1,917,311 31	100·00	2,352,820 55	100·00	2,448,375 06	100·00
Cost of Goods Sold	1,222,160 87	79·63	1,335,844 97	81·21	1,615,942 01	84·28	2,022,879 08	85·98	2,157,165 66	88·11
Gross Margin	312,615 59	20·37	309,104 49	18·79	301,369 30	15·72	329,941 47	14·02	291,209 40	11·89
Other Trading Profits	7,792 72	0·51	365 94	0·02	2,943 64	0·15	2,233 71	0·14	1,950 18	0·08
Gross Trading Profits	320,408 31	20·88	309,470 43	18·81	304,312 94	15·87	333,175 18	14·16	293,159 58	11·97
Operating Expenses	273,694 69	17·84	272,987 61	16·59	266,236 51	13·88	263,939 29	11·21	238,413 91	9·74
Bank and Mortgage Interest, less Discounts and Interest Received	2,192 03	0·14	3,630 31	0·22	8,619 66	0·45	14,726 92	0·63	14,344 26	0·58
Net Operating Profit before Income Tax	44,521 59	2·90	32,852 51	2·00	29,456 77	1·54	54,508 97	2·32	40,401 41	1·65
Provision for Income Tax	8,000 00	0·52	....	....	....	....	....	....	....	....
Net Income	36,521 59	2·38	32,852 51	2·00	29,456 77	1·54	54,508 97	2·32	40,401 41	1·65

EXHIBIT "C"

GAINERS LIMITED

STATEMENT SHOWING PERCENTAGE OF NET INCOME TO INVESTED CAPITAL FOR THE FIVE YEARS ENDED SEPTEMBER 30, 1933

—	As at September 30					
	1933	1932	1931	1930	1929	1928
	$	$	$	$	$	$
Current Assets	265,025 48	238,111 74	246,999 41	393,391 28	399,404 85	355,292 29
Current Liabilities	85,297 56	40,463 33	79,683 23	228,884 29	232,387 68	200,125 67
Net Current Assets	179,727 92	197,648 41	167,316 18	164,506 99	167,017 17	155,166 62
Prepaid Expenses	540 21	154 23	293 70	....	....	....
Fixed Assets	410,625 31	348,201 03	335,181 69	272,391 40	211,509 70	177,941 10
Tangible Assets (including Prepaid Expenses)	590,893 44	545,003 67	502,791 57	436,898 39	378,526 87	333,107 72
Deduct:						
Reserve for Depreciation	119,744 24	92,256 06	66,892 47	49,176 06	33,969 51	33,127 77
Mortgage Payable	25,000 00	26,000 00	27,000 00	....	....	....
	144,744 24	118,256 06	93,892 47	49,176 06	33,969 51	33,127 77
Net Tangible Assets at end of Perod	446,149 20	427,747 61	408,899 10	387,722 33	344,557 46	299,979 95
Net Tangible Assets at beginning of Period	427,747 61	408,899 10	387,722 33	344,557 36	299,979 95	
	873,896 81	836,646 71	796,621 43	732,279 69	644,537 31	
Average Invested Capital	436,948 40	418,323 35	398,310 71	366,139 84	322,268 65	
Net Income	36,521 59	32,852 51	99,456 77	54,508 97	40,401 41	
Percentage of Net Income to Invested Capital	8·36%	7·85%	7·40%	14·89%	12·54%	

A. To ascertain the net income earned on the capital invested in the company after eliminating extraneous charges or credits to operations, if any:

Capital: Gainers Limited was incorporated on September 29, 1911, under the laws of the province of Alberta, with an authorized capital of $75,000 divided into 750 shares of $100 each. The authorized capital was subsequently increased as follows:

On September 26, 1912, increased to..	$150,000
On April 11, 1925, increased to..	250,000
On August 17, 1928, increased to..	350,000
On December 2, 1930 increased to..	500,000

At September 30, 1933, there were issued and outstanding 3,902 shares, a total capital of $390,200.

Cash and stock dividends were distributed to shareholders during the period under review as shown in the undernoted summary: Dividends distributed to shareholders, year ended September 30, 1929, cash $15,234; percentage of capital, 6; stock dividend, $25,390; percentage of capital, 10.

Q. That is in 1929 a cash dividend of 6 per cent and a stock dividend of 10 per cent?—A. Yes.

Q. Issued to the shareholders?—A. Yes.

Q. Will you continue?—A. Year ended September 30, 1930, cash dividend, $18,544; percentage of capital, 6; stock dividend, $17,300; percentage of capital, 6.

Q. That is, six and six, a total of 12 per cent?—A. Yes.

Q. 6 per cent cash and 6 per cent stock dividend that year?—A. Yes. Year ended September 30, 1931, $19,980 cash, 6 per cent; $28,500 stock, 9 per cent.

Q. Six and nine; that is 15 per cent for the year 1931?—A. Yes.

Q. Will you continue?—A. For 1932, cash $21,804, 6 per cent; no stock dividends. For 1933, $23,020 cash, 6 per cent; $14,100 stock, 4 per cent.

Q. Six and four for the year 1933?—A. Yes.

Q. That is in the five years you have had a 30 per cent dividend in cash, and a 29 per cent stock dividend?—A. Yes.

Q. Will you proceed?—A. In Exhibit "A" we submit a balance sheet of the company at September 30, 1933, based on the audited balance sheet submitted to the shareholders.

By the Chairman:

Q. Before you leave that, I want to ask about these various increases from $75,000 to $150,000, $250,000 and so on. Were they represented by actual cash invested in the business?—A. That is just authorized.

By Mr. Sommerville:

Q. This was authorized?—A. Yes, that is just authorized.

By the Chairman:

Q. Then it increased to $390,000 issued, I think you said?—A. Yes.

Q. With regard to the difference between the original authorized capital of $75,000 and the issued capital of $390,000, how is that made up, of cash invested or was it stock dividends?—A. From 1929 on it is stock dividends. I can't tell you prior to 1929. We restricted it to five years on account of the time. It goes back to 1911.

By Mr. Factor:

Q. Can you give us the details year by year? I mean, each period of the increase?—A. Of the five years?

Q. Yes?

The CHAIRMAN: He has given us those.

The WITNESS: We have it.

The CHAIRMAN: They are stock dividends.

Mr. FACTOR: They are all stock dividends?

The CHAIRMAN: No. In 1929 there was a 10 per cent stock dividend; 1930, 6 per cent; 1931, 9 per cent; 1932, none and 1933, 4 per cent.

Mr. FACTOR: I see.

Mr. SOMMERVILLE: In other words, during the last five years you had a stock dividend of $85,290. That is the amount of the figures given.

By the Chairman:

Q. I suppose in the years previous to that there were similar stock dividends, presumably?—A. I think that was the practice of this company. We have got the whole thing here, I think.

By Mr. Sommerville:

Q. Very well, give it to us?—A. The original issue of $57,489 was for assets.

Q. $57,000?—A. $57,489. For services, $2,410.76.

Q. Dollars?—A. Dollars. For cash, $167,700; for dividends, $162,600; that makes up $390,200.

Q. So that $230,000 of the capital is represented by cash and services? —A. Yes.

Q. And $160,000 represented by stock dividends that have been paid?—A. By cash and the original value of the assets of the company.

Q. Cash and the original value of the assets?—A. Yes.

Q. Whatever those assets were?—A. Yes.

Q. You don't know what that value was?—A. It goes back to 1911.

Q. Will you continue, please?—A. Yes.

Net Income: A condensed statement of the operations for the five years ended September 30, 1933, is submitted in Exhibit "B."

In reviewing the operations consideration was given to such controllable items of cost of salaries, repairs and depreciations and adjustment of inventories which might have an important bearing on the net income of the company, as reported. No items of sufficient relative importance were found to warrant adjustment of the earnings.

The following comment is submitted on certain items included in the operating statement:—

Sales: In the following tabulation we submit details of the company's sales for the period under review, together with the percentages which the net income bears to the sales.

Period	Sales	Net income	Percentage
	$ cts.	$ cts.	%
Year ended September 30, 1929	2,448,375 06	40,401 41	1·65
" " 1930	2,352,820 55	54,508 97	2·32
" " 1931	1,917,311 31	29,456 77	1·54
" " 1932	1,644,949 46	32,852 51	2·00
" " 1933	1,534,776 46	36,521 59	2·38
Total	9,898,232 84	193,741 25	1·96
Average for period	1,979,646 57	38,748 25	1·96

Q. I observe for this company that in the balance sheet the inventory is $152,438.28 for the last fiscal year, which is apparently 10 per cent of their sales?—A. Yes.

Q. Indicating that they have a turnover of about ten times a year?—A. Yes, ten times.

Q. In their inventory?—A. Yes.

By Mr. Senn:

Q. When you talked about net income, you didn't include amounts set up for depreciation and reserve?—A. Oh, yes, that is the cost of operation.

By Mr. Sommerville:

Q. Net income that you have referred to is after allowance for depreciation and other reserves?—A. Yes, and all expenses.

Q. And all expenses of every kind?—A. Yes, but not dividends.

Mr. SENN: It would be interesting to know what those reserves are.

Mr. SOMMERVILLE: We have them here. The balance sheet indicates that they have land, buildings, plant and equipment; with land and buildings at $248,854; plant and equipment, $161,771.31. Those are at cost. That is $410,625.31, less reserve for depreciation of $119,744.24, a reserve for depreciation of about 30 per cent.

The WITNESS: We can't tell exactly, because land is not there, and we don't know the value of the land.

By Mr. Sommerville:

Q. You don't know the value as between the land and the buildings?—A. No. But I should say about 30 per cent.

Mr. SENN: 30 per cent on the land and buildings.

By Mr. Sommerville:

Q. Land and buildings, anyway?—A. Yes.

Q. And I think the buildings, you say in your report, are mostly frame?—A. Yes.

By Mr. Senn:

Q. That includes equipment as well?—A. Yes, that is everything.

By Mr. Sommerville:

Q. Will you just proceed?—A. Yes.

Inventories: We are informed that the basis of pricing the inventories during the period under review was the estimated cost of the raw constituents without the addition of labour and overhead costs, but from the records at our disposal we were unable to confirm this statement.

Q. They don't take cost or market?—A. No.

Q. Just the raw constituents?—A. The raw constituent cost.

Q. Without labour?—A. Without labour.

Q. That would show what?—A. That would indicate that that inventory is not on the basis of normal practice.

Q. But that has been their practice?—A. It has been their practice throughout, so that it does not affect operations.

Q. It does not affect operations?—A. No.

Q. All right. Will you continue?—A. Repairs and renewals: A general survey of the charges for repairs and renewals included in the operating accounts indicated that the amount was reasonable considering the age of the plant which, with the exception of recent additions, is of frame construction.

Depreciation: The value of land and buildings is combined in one account on the books of the company and we are therefore unable to ascertain the actual rate of depreciation on buildings. During the period under review, the company has varied the rates and basis of depreciation on its various assets

frequently, and therefore the rates used in any one period have little, if any, significance. In the following tabulation we show the average rates of depreciation charged by the company, based on the average book values during the period under review:—

	Per Cent
Buildings (Based on combined book value of land and buildings) largely of frame construction..	4·4
Plant and equipment..	8·2
Trucks..	17·1

Executive Salaries: The salaries and bonuses paid to executive officers for the year ended September 30, 1933, are as follows—

Q. Just give us the total?—A. The total was $23,100.

Q. That is salary plus bonuses for five executives?—A. Yes, $23,100. There were no material changes in the salaries and bonuses paid during the five years under review.

Invested Capital: In Exhibit "C" we submit a statement showing the relation which the net income bears to the average invested capital for the five years ended September 30, 1933, based on the annual balance sheets and profit and loss accounts as certified to by the company's auditors. The following table shows the percentage of net income to invested capital:

—	Average Invested Capital	Net Income: Amount	Net Income: Percentage to Invested Capital
	$ cts.	$ cts.	%
Year ended September 30, 1929	322,268 65	40,401 41	12·54
" " 1930	366,139 84	54,508 97	14·89
" " 1931	398,310 71	29,456 77	7·40
" " 1932	418,323 35	32,852 51	7·85
" " 1933	436,948 40	36,521 59	8·36
Total	1,941,990 85	193,741 25	9·98
Average for period	388,398 19	38,748 25	9·98

Q. That is to say it is a percentage of 9·98 on the $388,398.19?—A. Yes.

Q. But that includes what you have already stated, $160,000 of shares declared by way of dividend?—A. Yes.

Q. So that apart from the share dividend, the average cash income there would be $160,000 from $388,000, which is $228,398?—A. Well, you see, if they had not distributed that dividend in the form of stock, it would have been in surplus, so it is as broad as it is long. It would be in the invested capital, in any event.

Q. All right, will you continue?—A. Yes. (*b*) To determine the spread between the price paid to the producer of live stock and the price received by the packer from the sale of the various products manufactured from live stock.

In the case of Gainers Limited, the transactions are represented by the purchase of live stock and its conversion into dressed meat and packed products, so that the spread is represented by the difference between the price paid to the producer and the selling price. This spread, however, covers all the products handled by the company, and the records of the company are not designed to show the spread on individual commodities.

In common with other packing establishments, Gainers Limited does not maintain a system which would enable the cost of individual products to be

determined, and no records are available from which the selling price of all the products of a live animal can be ascertained.

For the above reasons we are unable to determine the spread between the price paid to the individual producer of live stock and the price received by the packer from the sale of the resulting products, and we are therefore, forced to substitute for this inquiry consideration as to whether the packer receives a reasonable or excessive return (*a*) on the capital invested, and (*b*) on the sales made to the public. The information necessary to arrive at a conclusion on these points is submitted in the section of this memorandum dealing with invested capital and sales, the average return shown being 9·98 per cent on invested capital and 1·96 per cent on sales.

By Mr. Young:

Q. You say 1·96 per cent on sales. You could not give it to us on the purchases, could you?

Mr. SOMMERVILLE: Yes, it could be given on purchases.

The WITNESS: I think for this company we might get it.

Mr. SOMMERVILLE: Yes, because we have here the cost of the goods sold.

The WITNESS: Yes.

Mr. SENN: That is the purchase price?

Mr. SOMMERVILLE: The purchase price. For instance, the condensed statement of operations in Exhibit "B" will show that the purchase price of the goods sold was $1,222,160.87.

The WITNESS: No, excuse me; that includes processing costs.

Mr. SOMMERVILLE: All processing costs.

The WITNESS: Yes, cost of goods sold and adjustment of inventories; but I think we can get it from the figures here. We will get it for 1933. About 4·2 per cent.

Mr. YOUNG: You say 4·2 per cent. Thank you.

By Mr. Sommerville:

Q. Will you continue?—A. Yes. (*c*) To determine the dressed cost of hogs—

Q. Before you reach that point, on the question of spread will you look at Exhibit "B" attached to this memorandum of yours?—A. Yes.

Q. You will observe that from the net sales you have taken the cost of goods sold, and your gross margin is $312,615.59?—A. Yes.

Q. Your spread is therefore 20.37 per cent?—A. Yes.

Q. Gross spread?—A. Yes.

Q. And that would indicate what had been the amount added?—A. You see, there are certain processing expenses that go into that.

Q. We have operating expenses taken from that?—A. In addition there would be some for the cost of the goods sold. We will tell you exactly what is in there.

Mr. FACTOR: He did say he was unable to determine it on that basis.

The WITNESS: The individual we are unable to determine. This is the aggregate. There is $240,000 for packages and supplies and other materials in there; $94,000 for direct labour; sundry supplies, $4,000; cold storage, $6,000; repairs, $5,000 and depreciation, $13,000.

By Mr. Sommerville:

Q. In that item?—A. Yes.

Q. Added to the cost of the goods sold? No, surely not. That won't show you a margin of $312,000?—A. It is included in the $1,222,000. There are certain direct expenses. For instance, depreciation is charged in there direct.

Mr. SENN: You cannot give us the purchase price of material?

The CHAIRMAN: You have it there?

The WITNESS: We gave it—$856,170.80.

By Mr. Sommerville:

Q. The purchase price in 1933?—A. Yes.

Q. Of the products, livestock?—A. Yes.

Q. How much was it?—A. $856,170.80.

Q. And sold, after certain processing charges you have indicated, for $1,534,776.46?—A. Yes.

Mr. FACTOR: Is there any way of determining what the processing charges are?

The WITNESS: Yes, we have just given them to you.

By Mr. Sommerville:

Q. The whole cost of those goods sold with the processing charges was $1,222,160.87?—A. Yes.

Q. And the margin, or gross profit, was $312,615.59?—A. Yes.

Q. That was a gross margin of 20·37 per cent?—A. Yes.

Q. Of the sales?—A. Yes.

Q. That gives a gross margin of 40 per cent, about?—A. 44·22 per cent.

Q. 44·22 per cent on the cost of the goods?—A. On the sales, based on the same thing.

Q. Based on the same thing?—A. All based on the percentage of sales.

Mr. SENN: The cost of selling would have to be taken care of out of that?

The WITNESS: We have not got down to that point. This is only the gross margin—that is shown lower down on the statement.

Mr. SOMMERVILLE: Proceed.

The WITNESS: To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments, (2) stockyards or markets, and (3) truckers, and the percentage which each of these classes bears to the total purchases. In the following tabulation we submit particulars of the average cost per 100 pounds dressed weight of hogs, based on the company's figures after applying thereto 4 per cent representing the shrinkage between warm and shrunk weight: September, 1933, direct shipments, $7.49; stockyards or markets, $7.96; truckers, $7.58.

By Mr. Sommerville:

Q. Just stop there to examine that condition. In the case of Gainers, in September, 1933, 91·3 per cent of their entire kill was brought in by truckers? —A. Yes.

Q. 2·4 per cent was bought on the open market and 6·3 per cent was shipped direct?—A. Yes.

Q. In December, 1933, 86·8 per cent of their kill came from the truckers, 3·4 per cent from the stockyards, and 9·8 per cent by direct shipments?— A. Yes.

Q. In March, 1934, 76·4 per cent of their kill came in by truckers, 8·8 per cent through the stockyard, and 14·8 per cent direct?—A. Yes.

Q. You will observe in March, 1933, the stockyard hogs cost them dressed 7·96, trucker hogs cost them $7.58—is that correct?—A. Yes.

Q. That is a difference of 38 cents?—A. Yes.

Q. Per hundred.

Mr. KENNEDY (*Peace River*): September, 1933.

By Mr. Sommerville:

Q. September, 1933. It cost 38 cents per hundred less to the packer for trucker hogs than for stockyard hogs?—A. Yes.

Q. In December, 1933, direct shipments cost $6.64, stockyards $7.61 and trucker $6.81?—A. Yes.

Q. A difference of 80 cents a hundred less for truck hogs in December than stockyard.

Mr. Edwards: The other way about.

The Witness: No, less.

By Mr. Sommerville:

Q. 80 cents a hundred; and in March, 1934, direct shipments cost them $10.81, stockyards cost them $11.40 and truckers cost them $10.19?—A. Yes.

Q. A difference of $1.21 per hundred less for trucker hogs than for stockyard hogs?—A. Yes.

Q. That was the net result?—A. Yes.

Q. And of course, more than 75 per cent of their hogs are trucker hogs?—A. Yes.

Mr. Kennedy (*Peace River*): And the farmers lose the advantage of their own feeding and watering at the yards?

Mr. Sommerville: There is no doubt about that. Proceed.

Mr. Senn: You are dealing with hogs only, not with cattle at all?

Mr. Sommerville: We are dealing with hogs only.

Mr. Senn: Were your figures regarding receipts taken from the stockyards on direct shipments in regard to hogs?

Mr. Sommerville: All hogs, total receipts.

Mr. Senn: You gave a percentage of receipts at the stockyards—

Mr. Sommerville: We are dealing only with hogs.

The Witness: Yes. The current prices paid for hogs are stated to be based on the market price, for the bacon grade with the following differentials on or off bacon grade:

Select—Premium of fifty cents per 100 pounds above the bacon.
Butcher—Discount of fifty cents per 100 pounds below the bacon.
Light and Shop—Discount of $1 per 100 pounds below the bacon (optional).
Heavy—Discount of $1.25 per 100 pounds below the bacon.
Extra Heavy—Discount of $2 per 100 pounds below the bacon.
Rough—Discount of $3.50 per 100 pounds below the bacon.
Smooth Sows—Discount of $2.50 per 100 pounds below the bacon.
All other sows—Discount of $3 per 100 pounds below the bacon.
Stags—Discount varies.
Cripples—Discount of $2.50 per 100 pounds below the bacon.

From the records maintained by the company it is not possible to determine whether the company gains an additional profit through the operation of the differentials before mentioned. After the hogs are dressed and cut they lose their identity in the plant, and the product is sold at the most advantageous market price.

The company does not maintain any records from which we can ascertain the dressed cost of cattle and small stock, but we submit in the following summary the percentages which the purchases of cattle and small stock from stockyards and markets bear to the total purchases during the months of September 1933, December 1933, and March 1934. Cattle and calves—

Mr. Senn: Before you start with that phase, I should like to say this. The most important feature of that is whether these dressed carcasses go into the fresh meat trade or the bacon trade.

The WITNESS: On the hogs.

Mr. SENN: Yes. Do you know the percentage?

The WITNESS: No, we cannot give you the percentage.

Mr. SENN: That is, the differential should not be that much if it goes to the fresh meat trade?

The WITNESS: All hogs go into the one killing operation, and when they go in there, they are lost.

The CHAIRMAN: A part of them is used as bacon?

Mr. SOMMERVILLE: And a part goes into the fresh pork trade?

Mr. SENN: I understand a very large percentage is used in the fresh meat trade; therefore, there should not be this differential.

Mr. SOMMERVILLE: Mr. Senn is questioning about the differential.

The WITNESS: That is really a part of the price that is paid for the hogs.

Mr. SENN: I can't understand how the differential should be observed unless a certain amount of the output goes into the export trade. If there is a certain amount that goes into the export trade, the differential should be observed, in a different way from what it should be in the fresh meat trade.

Mr. EDWARDS: A dollar for a bacon hog.

Mr. SOMMERVILLE: We had a statement from one company that 90 per cent of the product was domestic.

Mr. SENN: In that case there should not be a differential.

The WITNESS: Cattle and calves, September 1933, stockyards 51·43 per cent, truckers 48·57 per cent; December 1933, stockyards 47·22 per cent, truckers 52·78 per cent; March 1934 stockyards 28·59 per cent, truckers 71·41 per cent. Sheep and lambs: September 1933, stockyards 15·96 per cent, truckers 84·04 per cent; December 1933, stockyards 22·03 per cent, truckers 77·97 per cent; March 1934, stockyards 20·51 per cent, truckers 79·49.

Mr. SENN: The last statement indicates the percentage of the total purchase from these two sources?

The WITNESS: Exactly. "D." To determine the hourly rates of wages paid by the company and to prepare a tabulation giving the number of employees paid at each of the different hourly rates. In the following table we submit information showing the number and percentage of the company's employees engaged at the various hourly and weekly rates as at March 31, 1934.

Hourly rate	Number of employees	Per cent of total
$0.17½	1	·62
.20	5	3·11
.22	1	·62
.22½	5	3·11
.25	5	3·11
.26½	8	4·97
.27	2	1·24
.27½	3	1·86
.29¼	3	1·86
.30	14	8·70
.31-35	33	20·50
.36-40	14	8·71
.40-45	23	14·29
.46-50	10	6·21
.51-55	8	4·97
.56-60	4	2·48
.61-65	4	2·48
.70-75	3	1·86

Weekly rate	Number of employees	Per cent of total
$ 7.27	1	·62
16.18	2	1·24
17.31	1	·62
18.45	1	·62
19.60	1	·62
23.07	1	·62
25.01-30.00	2	1·24
30.01-35.00	2	1·24
35.01-40.00	4	2·48

None of the company's employees are on the piecework, or under any bonus system, and we are informed that no employee is required to "stand by" in his own time. Our examination of the payrolls over a period did not disclose any evidence to the contrary. Effective January 1st, 1932, wages were subjected to a general reduction of 10 per cent. An examination of payrolls subsequent to that date did not disclose any material change in the rates of wages.

By Mr. Kennedy (Peace River):

Q. Was there any reduction in salaries?—A. No, I think they were standard throughout. I think we say that. We say there was no material change in the salaries and bonus paid during the five years.

Q. What is the total salary?—A. $23,100.

Q. That is the five executives? I was asking the total salaries.

The CHAIRMAN: We will adjourn at this point until 3.30, if you can get the information that Mr. Kennedy asked.

Committee adjourned at one o'clock, to meet again at 3.30 o'clock.

The Committee resumed at 3.30 p.m.

The CHAIRMAN: Order, gentlemen.

By Mr. Sommerville:

Q. Now, Mr. Shepherd, will you present the next statement; Canada Packers Limited?—A. In the following paragraphs we submit certain information prepared from the certified accounts of the company's auditors, from the books and records of the company and from information obtained by us from the management without independent confirmation of the accounts.

Q. Just a minute; if you would speak a little louder first of all, and secondly, this that you are reading now is a paragraph from your memorandum?—A. Yes.

Q. Your information is prepared from the certified accounts of the company's auditors?—A. Yes.

Q. I understand that is a consolidated statement of Canada Packers?—A. That is so.

Q. And they operate, how many plants?—A. Head office in Toronto; plants at Toronto, Montreal, Winnipeg, Hull, Peterborough and Chicago.

Q. Yes. Then, with respect to each of these subsidiary plants, each plant is run independently?—A. Yes, that is so.

Q. Managed independently?—A. Yes.

Q. And all of its accounts kept separate and independently?—A. Yes.

Q. In the case of each of these plants, just the net profit or loss is forwarded to head office?—A. That is so.

Q. And then each of these net profits or losses is put into a consolidated statement?—A. Yes.

Q. And that consolidated statement is then taken and audited by the company's auditors?—A. Yes.

Q. That is to say, there is not an independent audit in each of these branch plants—an outside audit?—A. I could not say that.

Q. At any rate then there is not a consolidated statement made up of the operations of each of these plants?—A. No.

Q. Just the net result of the operations, whether it be a net profit or loss? —A. That is so.

Q. That is shown in the statement you have seen at head office?—A. Yes, that is right.

Q. You therefore, except at Toronto and Hull, did not examine the details of the operations in these various plants or branches?—A. No.

Q. You made two examinations; one at Toronto and the other at Hull, on certain phases of it?—A. Exactly.

Q. And you have accepted this statement from these various plants?—A. Yes.

Q. Otherwise you would have had to rewrite the books?—A. Exactly.

Q. To get a complete picture?—A. To get a composite of the profit and loss account.

Q. Yes, thank you; then— —A. Do you want me to read the scope of the investigation?

Q. No, the scope of the investigation is the same as you have already outlined?—A. The accounts of Canada Packers Limited and its subsidiaries are maintained at the head office in Toronto, at the plants in Toronto, Montreal, Winnipeg, Hull, Peterborough and Chicago, and at the other points where branch houses, creameries and other related businesses are located.

Q. Just at that point: perhaps you will tell me, the creameries of Canada Packers are operated at, I understand, Chesley, Clinton, Grand Valley, Mount Forest, Shamrock, Shelbourne, Walkerton, Wellington and Wiarton, Ontario? A. That is correct, yes.

Q. Then in addition to the plants you have referred to, they have branches throughout Canada at about 30 places?—A. That is so, yes.

Q. And then, in addition to these, they have cold storage plants at Toronto and Montreal, part from the packing plants at those two points?—A. That is so.

Q. And then there are certain canning factories owned by Canada Packers, are there not?—A. Yes.

The CHAIRMAN: Meat canning?

Mr. SOMMERVILLE: No, vegetable canning.

The WITNESS: Yes.

The CHAIRMAN: Vegetable canning factories.

Mr. SOMMERVILLE: Fruits and vegetables.

By Mr. Sommerville:

Q. And then there is the wool pulling factory at Toronto?—A. Yes, sir.

Q. And then there is the fertilizer business at Toronto and Montreal?—A. Yes. The plants receive periodical reports from the branch houses, etc., under their control and the net results so reported are incorporated in the plant books. The plants in turn submit monthly summaries of their operating results and financial position to the Head Office where the statements of the organization as a whole are consolidated. Our examination was confined to the records maintained at the Toronto and Hull plants and to certain operating statistics at the Montreal, Winnipeg and Peterborough plants. In preparing this memorandum we have also made use of certain summaries and reports on file at the Head Office.

In support of the information included in the memorandum, we submit the following statements:—

Exhibit "A"—Consolidated Balance Sheet, Canada Packers Limited and its Subsidiaries, as at March 29, 1934.

(Exhibit A printed as appendix to this day's evidence.)

Exhibit "B"—Condensed Statement of Operations for the Period from August 15, 1927 to March 29, 1934.

Exhibit "C"—Statement showing percentages of Net Income to Invested Capital for the period from August 15, 1927 to March 28, 1928, and Six years ended March 29, 1934.

Schedule "1"—Statement showing number of Employees and percentage to total number employed at the Toronto, Hull and Peterborough plants for one week in March, 1934, classified as to hourly and weekly rates of pay.

(*a*) To ascertain the Net Income earned on the capital invested in the Company after eliminating extraneous charges or credits to operations if any.

Capital.—Canada Packers Limited was incorporated under the Dominion Companies Act on August 13, 1927, with an authorized capital of 100,000, 7 per cent cumulative redeemable preference shares of $100 each, and 200,000 common shares without nominal or par value. The Charter provides that the common shares shall not be issued for a consideration exceeding in the aggregate $2,000,000. At March 29, 1934, there were issued and outstanding 60,335, 7 per cent cumulative redeemable preference shares of $100 each and 200,000 common shares with a stated value of $1,438,284.46, making a total capital of $7,471,784.46. The Company owned as at March 29, 1934, 688 of its 7 per cent cumulative redeemable preference shares, and 698 of its common shares which are shown in the Balance Sheet at that date as investments. Preferred dividends have been paid at 7 per cent per annum from July 1, 1927 to March 31, 1934. No dividends have been paid on the common shares.

Canada Packers Limited is a holding company for investments in the shares of several wholly owned subsidiaries of which the principal are The Harris Abattoir Company, Limited, William Davis Company, Limited, Gunns Limited and Canadian Packing Company, Limited. At the inception of Canada Packers Limited the entire capital stocks of The Harris Abattoir Company, Limited, Gunns Limited and Canadian Packing Company, Limited, were acquired.

Q. That is, when the Company came into existence they acquired at once the entire capital stock of these three other companies; Gunns, Harrises and Canadian Packing?—A. Yes. The entire capital stock of The William Davies Company, Limited, was owned by William Davies Company, Inc., an American Company, and at the inception of Canada Packers Limited a majority of the shares of Wiliam Davies Company, Inc. was purchased, all but six of the remaining shares being acquired subsequently. Thereafter an exchange of shares between William Davies Company, Inc., and Canada Packers Limited took place whereby 60,404 Class "A" shares and 17,708 Class "B" shares of William Davies Company, Inc., were exchanged by Canada Packers Limited, for 20,000 shares of The William Davies Company, Limited, leaving the remaining 10,000 shares issued by The William Davies Company, Limited, in the possession of William Davies Company, Inc. The last named Company, therefore, owns 60,404 of its Class "A" shares and 17,708 of its Class "B" shares. A summary showing the consideration for and the basis upon which the shares of the various subsidiaries were acquired is shown below.

BOOK VALUE OF AND CONSIDERATION FOR SHARES OF SUBSIDIARY COMPANIES ACQUIRED AS AT AUGUST 15, 1927, AND SUBSEQUENT THERETO

Book value of shares acquired—		
The Harris Abattoir Company, Limited:		
Capital Stock:		
25,550 Common Shares of $100.00 each		$ 2,555,000 00
Surplus		2,117,949 69
		4,672,949 69
William Davies Company, Inc.:		
Capital Stock:		
Class "A"—60,435 shares of no par value—stated value Class "B"—60,000 shares of no par value—stated value	$ 3,083,536 00	
Surplus	2,161,810 54	5,245,346 54
Canadian Packing Company, Limited:		
100,000 Common Shares of no par value—stated value		25,000 00
Gunns Limited and Subsidiaries:		
Capital Stock:		
3,000 Common Shares of no par value—stated value	1,435,201 76	
Deficit	48,786 38	1,386,415 38
Total		$11,329,711 61
Consideration:		
Cash	$ 2,571,077 15	
6% Second Collateral Trust Bonds	650,000 00	
66,703½ 7% Cumulative Redeemable Preference Shares of $100.00 each	6,670 350 00	
200,000 Common Shares, without nominal or par value—stated value	1,438,284 46	11,329,711 61

Q. Now then, just at that point, let me ask you: does that indicate that the total amount paid by Canada Packers Limited for all the shares in these four companies was paid for by the sum of $11.329,711.61—A. Yes.

Q. And that was the value of what was acquired?—A. Yes, the cost.

Q. That was the cost of what was acquired, and that included not only the shares at their stated value but also the surpluses in each of these companies, and that was taken into consideration in fixing these values?—A. That is so.

Q. So the Canada Packers therefore considered that the assets they were acquiring were worth $11,329,711.61?—A. Presumably.

Q. And they paid for those assets that amount of money?—A. Yes.

Q. Or, rather, they paid that amount for these assets?—A. For those stocks, and the surpluses in each company.

Q. And the surpluses in each company in which they got stocks were taken into consideration in fixing that amount?—A. Yes.

Q. Then, the manner in which they paid this $11.329,711.61 is set out in your memorandum?—A. Yes.

Q. First of all there was cash, $2.571,077.15 received by the new company; secondly, 6 per cent second collateral trust bonds, $650,000. received by the new company; thirdly, 66,703½ 7 per cent cumulative redeemable preference shares of $100 each having a value at par of $6.670,350; and fourth, 200.000 common shares, without nominal or par value, having a stated value of $1,438,284.46; or a total of $11,329,711.61?—A. That is so.

Q. Therefore, all of these assets were acquired by the payment of this cash—approximately $2,500,000—and the balance by preferred shares to a value of $650,000—collateral trust bonds?—A. Yes.

Q. Amounting to a total of $11,329,711.61?—A. That is so. In connection with the payment of $2,555,000 in cash to the shareholders of The Harris Abattoir Company, Limited, as part of the consideration for the acquisition of that Company's shares, Canada Packers Limited borrowed $2,500,000 from its bankers and gave as security its 6 per cent First Collateral Trust 20 Year Bonds with a face value of $2,500,000. Of this loan $1,250,000 was repaid to the bank in each of the years ended March 27, 1930 and March 26, 1931.

Q. At that point, I do not observe that in your statement you have indicated the issue of any twenty-year bonds to the extent of $2,500,000?—A. Well, they were collateral.

Q. They were issued collaterally?—A. Yes.

Q. And the $2,500,000 which was borrowed to be paid on the assets was then paid back by Canada Packers to its bankers in each of the years 1930 and 1931?—A. Half of it in each of those years.

Q. Half of it in each of those two years?—A. Yes.

Q. Out of their earnings?—A. Yes.

Q. And that wiped out the $2,500,000 obligation on the bonds?—A. Yes.

Q. And they ceased to be an obligation?—A. Yes.

Q. Will you continue?—A. Yes. At August 13, 1927, the inception of Canada Packers Limited, there were outstanding first mortgage sinking fund 6 per cent bonds of William Davies Company, Inc., and the Harris Abattoir Company, Limited, with a face value of $2,200,000 and $4,000,000 respectively, of which $79,000 and $125,000 were held by these subsidiaries. At March 29, 1934, these bond issues had been reduced to $1,350,000 for William Davies Company, Inc., and $3,242,900 for the Harris Abattoir Company, Limited, of which bonds Canada Packers Limited owned $615,200 and $1,057,400 which are shown in the balance sheet as investments.

The net reduction in the bonds outstanding and in the hands of the public from August 13, 1927, to March 29, 1934, amounted to $1,386,200 for William Davies Company, Inc., and $1,689,500 for the Harris Abattoir Company Limited.

Q. That is to say, in addition to the $2,500,000 paid back to the bank as indicated above, the Canada Packers paid off the bonds of the William Davies to the extent of $1,386,200?—A. Yes.

Q. And the bonds of the Harris Abattoir Company to the extent of $1,689,500?—A. Yes, that is so.

Q. Or a total of about $3,000,000 odd?—A. $3,075,700.

Mr. Kennedy (*Peace River*): In what years?

Mr. Sommerville: From 1927 to 1934.

Mr. Kennedy (*Peace River*): Out of earnings? No new stock?

The Witness: It is partly out of earnings and partly out of the amount set aside for depreciation.

By the Chairman:

Q. That would be earnings, would it not?—A. Yes. It is charged against earnings but set up as a depreciation reserve and not invested.

Q. It would be out of gross earnings?—A. Gross earnings, yes.

By Mr. Sommerville:

Q. That is, it was not paid off by other financing?—A. No.

Q. Their net position was improved to that extent?—A. Yes. In Exhibit "A" we submit a consolidated balance sheet of the company at March 29, 1934, based on the company's tentative balance sheet which is subject to completion of the audit for the year ended that date.

Q. Just at that point, before we deal with this balance sheet,—for the $11,000,000 which Canada Packers paid they acquired the shares of these four companies?—A. Yes.

Q. And these four companies had certain plants. How many plants were there?—A. Twelve, I think, originally.

Q. Originally there were twelve plants?—A. Yes.

The Chairman: You had better give us the names of them.

By Mr. Sommerville:

Q. At Toronto they had the Harris Abattoir, Gunns' plant, Davies' plant and the Canadian Packing Company's plant?—A. Yes.

Q. At Montreal, the Canadian Packing Company's plant and the Davies' plant?—A. Yes.

Q. At Hull, the Canadian Packing Company plant?—A. Yes.

Q. At Peterborough, the Canadian Packing Company plant?—A. Yes.

Q. At Brantford, the Canadian Packing Company plant?—A. Yes.

Q. At Winnipeg, the Harris plant and the Davies' plant?—A. Yes.

Q. And at Chicago, the Davies' plant?—A. Yes.

Q. Those plants were taken over. How many plants are now operated? Those twelve were taken over. What happened to those plants?—A. They are now reduced to six.

Q. That is to say, Harris and Gunns of Toronto have been consolidated and operate as one plant?—A. Yes.

Q. What about Davies at Toronto?—A. That is 95 per cent discontinued.

Q. That is, the plant as a packing plant was closed down?—A. Yes.

Q. And is used now as a receiving station?—A. Yes, for hogs.

Q. For hogs and for cold storage?—A. Yes.

Q. You say that is 95 per cent closed down?—A. Yes.

Q. What about the Canadian Packing Company plant at Toronto? That was sold, was it not?—A. Yes.

Q. Then instead of the two plants at Montreal, Canadian Packing Company and Davies have been consolidated?—A. Yes.

Q. And operate as one?—A. Yes.

Q. Then at Hull the Canadian Packing Company plant is continued?—A. Yes.

Q. It is continued at Peterborough?—A. Yes.

Q. The plant at Brantford is closed down, except that it is used as a branch?—A. Yes.

Q. I mean, as a packing plant it is closed down?—A. As a packing plant it is closed down, yes.

Q. Then at Winnipeg the Harris plant has been continued?—A. Yes.

Q. And the Davies' plant closed?—A. Yes.

Q. At Chicago the Davies' plant has been continued?—A. Yes.

Q. That is, with these consolidations and with the elimination of certain plants, there are six plants in operation now?—A. Yes.

Q. But all of those twelve plants were covered by the purchase price paid originally for the assets?—A. Yes, that is so.

Q. Now, can you tell us with regard to the three plants now closed, at what figure they were carried on the books, their original gross book value?—A. Yes. The total was $3,877,136.08.

Q. Those are the plants that are closed, the three?—A. That is for the land, buildings and machinery.

Q. The land, buildings and machinery of the three plants?—A. Yes.

Q. That is the Canadian Packing Company at Brantford, Davies at Winnipeg and Davies at Toronto?—A. Yes.

By Mr. Factor:

Q. Is that included in the balance sheet in this $18,000,000 odd?—A. Yes, they are included.

By Mr. Sommerville:

Q. With reference to these remaining plants, they have been consolidated physically, have they not? At Toronto, for instance, the plants that remain have been consolidated physically? They work together?—A. They work together, yes, but the accounts are not entirely consolidated.

Q. No, I understand that. But with reference to the books of these four plants, they are kept separately?—A. Of the separate companies, yes.

Q. And they are maintained with their original set up of assets in each of these books?—A. The stock is maintained.

Q. The stock is maintained?—A. Yes, in order, I take it, to retain the shares. It is a stock holding.

Q. It is a stock holding; and these four companies, I understand, have their assets in their respective books or have kept their accounts in their respective names, shall I put it that way?—A. No, the actual operating accounts are pooled.

Q. That is, operating accounts?—A. Yes.

Q. But there is a statement of assets and liabilities in each of these four companies?—A. They do take it off, I am told.

Q. Then the statements from these four companies are consolidated along with the others in this consolidated balance sheet?—A. Yes.

Q. Canada Packers each year issue a consolidated balance sheet?—A. To the shareholders.

Q. That is similar to the balance sheet which is shown here?—A. Exhibit "A".

Q. In this consolidated balance sheet I observe the land, buildings, plant and equipment carry a value of $18,962,703.18?—A. Yes, that is so.

Q. And those were the valuations based on appraisals from 1919 to 1927?—A. Yes.

Q. Prior to the acquisition of these companies by Canada Packers?—A. That is so.

Q. And these are the lands, buildings and plants that were in the various companies for which $11,000,000 odd was paid by Canada Packers, as you have said?—A. Yes, that is so.

Q. Although they have been valued in this statement and were valued on the books at $18,900,000, they were actually bought, along with other assets, for $11,000,000 odd?—A. Yes, that is so.

Q. Then is the depreciation that is set up each year based upon the $11,000,000 actually paid for these assets, or upon the $18,900,000 at which they were carried in these various books?—A. It is really not based on either of those figures.

Q. How is the difference provided for or taken care of, between the $11,000,000 you refer to and the $18,000,000 that is referred to here?—A. The $11,000,000 has not anything to do with the fixed assets. That is the price paid for the net tangible assets of the company, of all the companies, which would include all assets.

Q. What amount of depreciation has been set up?—A. Approximately $750,000 a year.

By the Chairman:

Q. Depreciation reserve from Exhibit "A" shows $6,862,579.65, is that right?—A. Yes.

By Mr. Sommerville:

Q. What is that?—A. That is reserves that were on hand at the date of purchase, plus the subsequent credits which have been charged to operations. The subsequent credits are $3,795,000.

Q. That is, in the consolidated balance sheet there is this amount of reserve for depreciation, $6,862,579.65?—A. Yes.

Q. That is made up of the reserves for depreciation on hand in the various companies at the time the shares were acquired by Canada Packers?—A. Yes.

Q. What did those reserves amount to at that date?—A. $1,819,697.82.

Q. $1,800,000 odd depreciation on hand?—A. Yes.

Q. At the time that they were acquired by the Canada Packers. How much has been added to that depreciation since then?—A. Approximately $5,000,000.

Q. That is one item of reserve. Here is another item I see in this: surplus on appraisals, $5,686,547.59 set up in the consolidated balance sheet. What does that mean?—A. That is the surplus arising from the appraisals of the original company's assets.

Q. What do you mean by that?—A. Well, when these assets were appraised in 1919 to 1927, and before this company was formed, the surplus arising from the appraisals was credited to that service.

Q. The surplus?—A. In other words, the assets were written up on the books by that amount and the credit went into that reserve.

By Mr. Edwards:

Q. The difference between the book price and the appraisal price?—A. As a result of the appraisal.

Q. The difference between the values as carried in the books and the value of the appraisal?—A. Yes.

By Mr. Sommerville:

Q. Those values then would be written up?—A. Yes.

By Mr. Kennedy (Winnipeg):

Q. In what respect is that a liability?—A. It is not a liability, it is a reserve.

By Mr. Edwards:

Q. It shows in the liability column?—A. Yes.

By Mr. Sommerville:

Q. I see it is set up on the liability statement here as a surplus?—A. Yes, that is so.

Q. Then that is an amount of value in excess of the amount paid by Canada Packers for these assets?—A. That is so.

Q. So that when Canada Packers bought these assets they did not value them at the $5,686,547.59 by which they had been written up?—A. They disregarded that.

Q. And that makes a total of these two items of reserve amounting to $12,549,127.24?—A. That is so.

Q. Will you proceed with your statement, please.

By the Chairman:

Q. Just one question at that point before you proceed, Mr. Shepherd: As a matter of sound accountancy and good book-keeping in providing for reasonable earnings, including reserves and so forth, this $5,686 odd of surplus of appraisals is to be disregarded.—A. I meant that they did not pay anything for that, yes.

By Mr. Kennedy (Winnipeg):

Q. Where is that amount just mentioned by Mr. Stevens reflected in the assets column?—A. Under the $18,000,000 odd of land, buildings, leasehold and equipment.

Q. And the next item on the liability column, Reserve set-up of $6,000,000 odd is— —A. That is reflected anywhere throughout the other assets.

Mr. KENNEDY *(Peace River)*: Do I understand in paying the $11,000,000 they got this reserve fund of $1,800,000 with the buildings.

Mr. SOMMERVILLE: Everything, yes. They got the assets and they took over the liabilities and for it paid $11,000,000. All right, Mr. Shepherd.

The WITNESS: *Net Income:*—A condensed statement of the operations for the seven fiscal periods from the inception of Canada Packers Limited, August 13, 1927, to March 29, 1934, is submitted in Exhibit B.

In reviewing the operations consideration was given to such controllable items of cost as salaries, repairs and depreciation, and adjustments of inventory values, which might have an important bearing on the net income of the company, as reported.

The aggregate provision for repairs and depreciation appears to be liberal, representing as it does an amount of $6,134,288.86 for the five years ended March 29, 1934, or 51·85 per cent of the average depreciable value of the fixed assets.

By Mr. Sommerville:

Q. For the five years ended March 29, 1934, the total provision for repairs and depreciation is $6,134,288.86?—A. Yes.

Q. And that represents 51·85 per cent of the average depreciable value of the fixed assets?—A. Yes.

Q. And that is provided, of course, out of earnings?—A. Oh yes. We submit below a tabulation of the repairs and depreciation charges for these periods:

—	Repair Charges	Depreciation	Total
	$ cts.	$ cts.	$ cts.
Fiscal Year ended March 27, 1930	612,158 00	748,373 14	1,360,531 14
" " March 26, 1931	465,483 00	766,950 17	1,232,433 17
" " March 31, 1932	463,839 00	777,820 65	1,241,659 65
" " March 30, 1933	350,165 00	748,997 01	1,099,162 01
" " March 29, 1934	446,874 00	753,628 89	1,200,502 89
Total	2,338,519 00	3,795,769 86	6,134,288 86

The amounts of repair charges for the period from August 15, 1927, to March 28, 1928, and for the year ended March 27, 1929, have not been shown as the information for these periods had not been obtained up to the date of this memorandum.

If the annual provision for depreciation is maintained on the present basis it will result in the extinction of the book value of all the fixed assets, excluding real estate, within the next six and three-quarter years.

Q. That is, the basis of depreciation you say has been liberal in the past? —A. Yes.

Q. And if it is continued on that basis everything that is depreciable will be wiped out?—A. Yes.

Q. And the fixed assets will be fully provided for within six and three-quarter years?—A. Yes.

Q. Can you give the committee any idea of the extent to which that depreciation allowance is more liberal than usual?—A. No.

Q. Is that depreciation based at all on the book values that we have for the buildings in the original plan?—A. Largely on original cost and appraisals.

Q. That is, the appraisals are largely on the original costs of $18,000,000 odd?—A. No, it would be prior to that even.

Mr. FACTOR: The original company.

By Mr. Sommerville:

Q. Prior to that?—A. Yes.

Q. At any rate, it is largely on original figures and not on the figures of $11,000,000 odd which Canada Packers paid for these assets?—A. Oh, no, that has no relation.

Q. It has no relation whatever to the $11,000,000 invested?—A. No.

Q. If your books were consolidated and your assets were brought into a single company statement as assets for which you paid $11,000,000, your depreciation would be based upon your $11,000,000, would it not?—A. Whatever the figure of fixed assets showed in that balance sheet.

Q. Whatever the figure of fixed assets showed in that balance sheet as comparable, as forming part of the $11,000,000?—A. Yes, exactly.

Q. It would not exceed the $11,000,000?—A. No, it would not.

Q. Well, the depreciation is apparently taken on a basis in excess of $11,000.000 being the cost of the original buildings?—A. No, I would not like to say that. You cannot tell what the original basis is; it is an arbitrary basis.

Q. But it must be an arbitrary basis on some valuations?—A. Well, the valuations vary in every case.

By Mr. Kennedy (Peace River):

Q. What about this six and three-quarter years and the extinction of the fixed assets, was the value of the fixed assets $11,000,000 or $18,000,000?—A. The present book value, which is $18,000,000, less the reserves.

By the Chairman:

Q. But there is a relation, Mr. Shepherd, between the amount of the depreciation set aside and the valuation of $18,000,000; it may not be based upon that, but in your computation it would take another six and three-quarter years to completely wipe out the book value of all the fixed assets?—A. That is the fact.

Q. So that there is an assumed relation between the two?—A. Yes.

Mr. KENNEDY (*Peace River*): What about the plants that have been sold?

Mr. SOMMERVILLE: There was one plant sold. The receipts from that, of course, have been credited.

Mr. SENN: And also the plants that are idle?

Mr. SOMMERVILLE: The plants that are idle are still carried, of course, and they are depreciated accordingly. Will you please proceed, Mr. Shepherd, with your memorandum.

The WITNESS: The following comment is submitted on certain items included in the operating statement.

By Mr. Factor:

Q. Did you give us the percentage of the net income to the invested capital of this company?—A. Not yet; that is later on:—

Sales: In the following tabulation we summarized the company's sales for the period under review, together with the percentage which the net income bears to the sales:—

Period	Sales	Net Income	Percentage
	$ cts.	$ cts.	%
Period from August 15, 1927 to March 28, 1928	70,212,862 00	1,028,697 64	1·47
Fiscal Year ended March 27, 1929	101,026,733 00	1,503,297 58	1·49
" " March 27, 1930	100,102,203 00	1,552,071 40	1·55
" " March 26, 1931	82,841,103 00	838,111 76	1·01
" " March 31, 1932	60,081,710 00	384,302 51	0·64
" " March 30, 1933	45,027,677 00	607,671 96	1·35
" " March 29, 1934	54,380,430 00	1,451,179 76	2·67
Total	513,672,718 00	7,365,332 61	1·43
Average per year	77,535,505 00	1,111,748 32	1·43

By Mr. Sommerville:

Q. Now this net income is after providing for all expenses?—A. Yes.
Q. And after providing for depreciation?—A. Yes.
Q. And all other proper charges?—A. Yes.

By Mr. Kennedy (Peace River):

Q. Including bank loans?—A. Interest if there was any.

The figures for sales shown above were obtained from a statistical record of the company which purports to show the sales to the public, but we cannot substantiate this figure owing to the fact that sales to the public and shipments to branches are combined in one amount in the company's books of account.

Inventories.—We are informed that the inventories were valued at lower of cost or market at March 28, 1928, and that from March 1929 to 1932 inclusive the inventories were valued at cost less the following reserves deducted therefrom to reduce the valuation to what the company considerd a conservative basis:

As at March 27, 1929..	$ 586,268 95
" " 27, 1930..	688,618 75
" " 26, 1931..	686,268 95
" " 31, 1932..	686,268 95

By Mr. Sommerville:

Q. Now, those are amounts taken of below cost—A. To reduce the inventories to cost or market.

Q. To cost less the following reserves?—A. Well, that is the purpose of the reserves, to reduce them to cost or market.

Q. All right.—A. At March 30, 1933, and March 29, 1934, the company changed its basis of valuation to lower of cost or market, with a further deduction of one half cent per pound on a part of the inventories of product at the main plants. Our computation of the amount of this deduction, based on the inventories of the Toronto plants at March 29, 1934, and March 30, 1933, is $80,405.97 and $63,536.22 respectively.

Q. That is to say on these two years' valuation of inventory they took first of all whichever was the lower of cost or the market price?—A. Yes.

Q. And then from that figure they deducted half a cent per pound?—A. Yes.

Q. And in the Toronto plant these deductions amounted to $80,405.97 in one year and $63,536.22 in another year?—A. That is so.

By the Chairman:

Q. Was the same principle applied to other plants in other places?—A. This company?

Q. This company's other plants?—A. Yes, I am coming to that in a moment. As I say, our computation of the amount of this deduction, based on the inventories of the Toronto plants at March 29, 1934, and March 30, 1933, is $80,405.97 and $63,536.22 respectively, based on a total inventory valuation of the product at the Toronto plant of $1,706,322.61 and $1,469,501.57 the deduction representing approximately 4·7 per cent and 4·3 per cent respectively. Applying the same percentages to the total value of the product at the main plants amounting to $3.932,414.49 at March 29, 1934, and $2,456,960.44 at March 30, 1933, we developed deductions of $184,823.48 and $105,649.30 for the company as a whole.

Q. The total amount then of the deductions below the lowest cost, whether it was cost or market, would be $184,000, in one year and $105,000 odd in 1933?—A. Yes. That is an estimate predicated on the figures we found at Toronto.

Q. What is the effect of lowering your inventory?—A. Well, as long as the basis is the same between years it does not make any difference to the operations.

By Mr. Factor:

Q. But they changed it in 1931 by reducing it half a cent a pound.

Mr. SOMMERVILLE: In 1933.

The WITNESS: In 1933, yes.

By Mr. Factor:

Q. What was the purpose of changing it in that particular year?—A. I suppose to take care of any undue fluctuations in the market. We go on to say here:—

In the opinion of the company's officials these deductions are warranted by conservative practice in view of the rapidly changing market prices for products.

By Mr. Sommerville:

Q. We had one other case where they took the lower of cost or market for their inventories?—A. Yes.

Mr. FACTOR: But in addition to that they have taken off half a cent per pound.

By Mr. Sommerville:

Q. If these amounts were added the book statement would show larger profits, I presume?—A. Yes.

Q. It would reflect in larger profits?—A. For this year.

Q. For this year, yes?—A. Yes. An amount of $200,000, part of the General Reserve, was deducted from the total of the inventories as valued at lower of cost or market at March 30, 1933, thus making the inventory valuations $200,000 less than lower of cost or market. At March 29, 1934, no part of the general reserve was used for this purpose, but a reserve of $45,414.77 carried on the books of the Chicago plant was deducted from the inventory.

Q. What do you mean by that?—A. Those were in addition to the figures given.

Q. That is, in addition to the amount taken off inventory there was taken off last year $200,000?—A. Yes.

Q. Which was carried as a general reserve?—A. In 1933 it was $200,000.

Q. And in 1934 $45,414.77 was taken off?—A. That is so.

Q. The inventory then this year would be the lower of cost or market less one-half per cent per pound less $45,414.77?—A. That is so.

By the Chairman:

Q. Mr. Shepherd, as you reduce your inventory you naturally reduce the net income of the company, do you not?—A. Yes sir, but it does not matter if the same basis is maintained throughout a period of time, as far as the earnings are concerned.

Q. How do they correct that at the end of each year as to the previous year, having for instance deducted $160,000 odd say in 1933, how do they reconcile that in their statement for 1934?—A. Well, that reserve goes back again and it is shown on the books until this year again at the end of the next period.

Q. But in the meantime does it not show the earnings reduced by that amount?—A. Oh yes, that is so.

Q. Well, is that— —A. That is a conservative practice.

By Mr. Young:

Q. If prices were declining would that not be the proper thing to do?—A. Yes. It just defers the profit to the next year.

By the Chairman:

Q. When they do it the next year what happens?—A. That defers it again.

Q. There must come a time though when they must ultimately be disclosed unless there is an actual loss to take up that?—A. Exactly.

By Mr. Factor:

Q. In other words, if there is nothing on which to base that and they take off there $200,000 what is to prevent them taking $400,000 off?—A. Well, I suppose the facts did not warrant such a large amount as $400,000; that is the only explanation.

Q. I mean, there is an element of risk?—A. There is an element of risk, yes.

By Mr. Young:

Q. What is the proper basis then for determining that?—A. I do not know that there is any basis. It is a prudent practice to have some reserve. The general basis is lower of cost or market.

Q. If you were the auditor, would you advise a reduction by that amount under the circumstances that existed in that particular year?—A. In view of the hazardous nature of the business, yes I would think it was the proper thing to do.

By the Chairman:

Q. But should that not be disclosed in the balance sheet?—A. Well, it is not the practice to do that.

By Mr. Senn:

Q. It cannot be done indefinitely, Mr. Shepherd.—A. No, it will come in the next year.

By Mr. Sommerville:

Q. I was just looking to see what it was in Swift's. I see Swift's statement is based on lower of cost or market.

The WITNESS: Yes.

Mr. SOMMERVILLE: They do not make any other deduction.

By Mr. Kennedy (Winnipeg):

Q. Mr. Shepherd, referring to exhibit A which is the consolidated balance sheet of Canada Packers for the year ending March 29, 1934—I just wanted to clear up a point for my own satisfaction,—you find these items in the list of liabilities, surplus on appraisals $5,000,000, reserve for depreciation, $6,000,000 odd, carried along to the total liability column, $12,000,000 odd, which leaves the net result on the bottom as a surplus of $4,654,581.65. As a matter of fact, assuming all the other figures are correct, would not the real surplus be the same, $4,654,581.65 plus that $12,549,127.24?—A. Oh no, because taking the depreciation reserves, that is a reserve for the purpose of replacing wasting assets.

Q. Yes; but has not depreciation been taken into consideration on the assets already?—A. No.

Q. Not taken into consideration at all?—A. These reserves might be deducted from the assets and the assets show—no, it is just a matter of presentation.

Q. Then, a correct reflection of the assets would be $18,000,000 odd less the reserve for depreciation, $6,000,000 odd?—A. Less both of them; but of course, you would have to show all these. Of course, it is immaterial whether the assets are on the liability side or deducted on the asset side.

Mr. SENN: As a matter of fact, the cost of repair does not go on the depreciation account?

The WITNESS: No, that is a direct charge on operation.

Mr. SOMMERVILLE: It is not in here at all, because the repairs are something entirely separate.

By Mr. Kennedy (Winnipeg):

Q. Let me apply this test: Suppose you increased that item of reserve for depreciation by the amount of the surplus, you would make all your surplus disappear?—A. Then you would not be able to pay any dividends because you would not have any free surplus. You would have to show a deficit.

Q. In so far as a sheet like this is concerned, by increasing your reserves for depreciation up to the amount of this apparent surplus, your surplus would disappear?—A. I do not see how you could. These credits—

Q. Reserve for depreciation? I assume either you can further increase it or decrease it?—A. But there is a basis there. It does bear some relation to the facts. The purpose of a reserve is to replace the—

Q. I understand.—A.—fixed assets at the end of the period.

Q. You say there must be some basis. Have you examined into what the basis is that they have set up the reserve for depreciation?—A. Yes, we have examined into the basis.

Q. It is a conservative basis?

Mr. SOMMERVILLE: He says it is a liberal one.

The WITNESS: I have already dealt with that.

Mr. SOMMERVILLE: He said it is so liberal it will wipe out everything in three to four years.

By Mr. Senn:

Q. If I am not getting away from your brief, I should like to ask you one question. A short time ago you stated the amount of net income from year to year and its percentage to the total sales?—A. Yes.

Q. Would it be possible to give us that net income per pound of sale?—A. I think it would be possible, yes.

Q. There is an impression abroad that a very large proportion per pound is made by the packer. I think it would be in the interest of the committee if you could reduce that to the amount per pound of sale?—A. I think those figures are in the published reports of the company. We can get it, but it will take a little time to get it.

Mr. SOMMERVILLE: Proceed.

The WITNESS: *Depreciation.*—The following are the prevailing rates used by the company in computing depreciation on fixed assets:

Buildings..	$2\frac{1}{2}$, 5 and 10%
Machinery..	10
Delivery equipment..	25
Office furniture..	10
Trucks and autos..	25
Creamery cans..	10

The values on which depreciation is based are not uniform, some being cost and others appraisal values with subsequent additions at cost.

Repairs and Renewals.—While the annual charges for repairs and renewals appear to be high we are informed that these expenditures are necessitated by the nature of the business.

Our examination of the accounts of the Toronto plant relating to repair for the two years ended March 29, 1934, indicated that of a total expenditure of $341,789 during that period approximately $54,164.84 is in respect of charges which might be regarded as being in the nature of renewals and betterments.

Mr. SOMMERVILLE: Fifteen per cent.

The WITNESS: Yes. It is just a matter of opinion as to whether certain things are renewals or not.

Executive Salaries and Bonuses.—The annual salaries and bonuses of the major executive officers for the year ended March 29, 1934, were $73,000.

Mr. KENNEDY (*Peace River*): How many?

The WITNESS: Five major executive officers—$73,000.

Mr. SOMMERVILLE: Including salaries and bonuses.

Mr. KENNEDY (*Peace River*): I think we had better have those.

The CHAIRMAN: Just a moment. Would you leave that until Mr. McLean or whoever represents the company is a witness and can have an opportunity to express his wishes in the matter?

Mr. FACTOR: Mr. Chairman, we have adopted the policy in connection with the tobacco inquiry. It does not make any difference to me whether you disclose it or not, but why mete out different treatment to these people?

The CHAIRMAN: Suppose we do as we did with the tobacco people. They were on the stand. Mr. Miller was a witness and the president of the company. A representative of the company was on the stand. When a representative of this company is on the stand it will then be for the committee to say whether they want to hear this evidence or not.

Mr. KENNEDY (*Peace River*): Give us the lump sum.

The WITNESS: $73,000.

Invested Capital.—In exhibit " C " we submit a statement showing the relation which the net income bears to the average invested capital during the period under review, based on the annual balance sheets and profit and loss accounts as certified to by the company's auditors for the period from August 15, 1927, to March 30, 1933. For the year subsequent to March 20, 1933, we have adopted the company's tentative balance sheet as at March 29, 1934, and profit and loss account for the year ended March 29, 1934, both of which are subject to the completion of the auditor for the year ended on that date.

On the basis of the company's annual accounts the percentage of net income to the average invested capital is as follows:—

NET INCOME

Fiscal year ended	Average Invested Capital	Amount	Percentage to invested Capital
	$ cts.	$ cts.	%
March 29, 1934	11,928,282 79	1,451,179 76	12·17
March 30, 1933	11,637,494 49	607,671 96	5·22
March 31, 1932	11,634,800 77	384,302 51	3·30
March 26, 1931	11,578,447 09	838,111 76	7·24
March 27, 1930	11,056,261 45	1,552,071 40	14·04
March 27, 1929	9,918,379 84	1,503,297 58	15·16
Period from August 15, 1927 to March 28, 1928	8,605,676 12	1,028,697 64	*19·12
Total	76,359,342 55	7,365,332 61	
Average for Period	10,908,477 51	1,111,748 32	*10·20

* Adjusted to annual return basis.

In the following tabulation we show the adjusted net income of the company after the elimination of certain charges and credits which we consider from operations extraneous to the packing house and its related businesses and the percentage of the adjusted net income to the average invested capital of the company.

Mr. SOMMERVILLE: That will be copied in the record.

The WITNESS: Yes.

Fiscal year ended	Average Invested Capital	Adjusted Net Income	
		Amount	Percentage to invested Capital
	$ cts.	$ cts.	%
March 29, 1934	11,928,282 79	1,399,064 44	11·73
March 30, 1933	11,637,494 49	634,875 94	5·46
March 31, 1932	11,634,800 77	449,637 00	3·86
March 26, 1931	11,578,447 09	863,844 44	7·46
March 27, 1930	11,056,261 45	1,771,698 85	16·02
March 27, 1929	9,918,379 84	1,433,434 17	14·45
Period from August 15, 1927 to March 28, 1928	8,605,676 12	1,103,766 60	*20 52
Total	76,359,342 55	7,656,321 44	
Average for period	10,908,477 51	1,155,671 16	*10·59

* Adjusted to annual return basis.

By Mr. Sommerville:

Q. There is not much difference?—A. ·39 per cent, a little higher.

Q. The percentage as adjusted for net income is 10·59?—A. Yes.

Q. Instead of 10·20?—A. Yes. In connection with the company's major holdings in the capital stock of certain other companies which are treated as investments the following summary shows the number of shares held and values at which they are carried on the books of the company as at March 29, 1934, the original cost and the amounts written off the original cost:—

Name of Company	Number of Shares	Book Value March 29, 1934	Original Cost	Amounts Written off.
	Common	$ cts.	$ cts.	$ cts.
Dominion Stores, Limited	7,900	102,489 05	198,214 99	95,725 94
Stop and Shop, Limited	6,822½	3 00	378,759 45	378,756 45
Folkard Canning Co., Ltd	439	1 00	43,900 00	43,899 00
	Capital			
Union Stockyards of Toronto, Limited	4,686	468,600 00	468,600 00	....

Q. The amounts that have been written off for the three companies to which you refer total how much?—A. $518,380.

Q. That would be written off out of earnings?—A. Charged against profits, yes.

The CHAIRMAN: That would be before the net profits that you have just recited?

The WITNESS: Yes.

Mr. FACTOR: What is the total amount of investment in the other companies? How much is the total of the investments?

Mr. SOMMERVILLE: The original cost?

Mr. FACTOR: Yes.

The WITNESS: $1,089,474.44.

Mr. SOMMERVILLE: There is $508,380 written off, about 50 per cent?

The WITNESS: $518,000.

Mr. SOMMERVILLE: About 50 per cent?

The WITNESS: Yes, approximately.

Mr. FACTOR: Where is it shown in the consolidated balance sheet?

The WITNESSS The investment?

Mr. FACTOR: Yes.

The WITNESS: Sundry investments and mortgages.

Mr. FACTOR: Is that the amount?

The WITNESS: Yes. It is not the exact amount because there is other material in there, mortgages and so on.

By Mr. Sommerville:

Q. In other words, the various items that they have written down cost $1,000,000 odd?—A. Apparently.

Q. The entire Stop and Shop stock has been written off?—A. Yes.

Q. The entire amount for the Stop and Shop has been written off?—A. Yes.

Q. And 50 per cent of the amount paid for the Dominion Store shares have been written off?—A. Yes.

Q. And the entire Folkard Canning Co. Ltd. shares have been written off?—A. Yes.

By Mr. Factor:

Q. What is the principle adopted in writing these values off in relation to the market value?—A. The Dominion Stores were written down to market some time ago and have since gone up. The others, I take it, are written off because the company assumes they have no value, or they had no value at the time they were written off.

Q. Have these stocks written off no value now? For instance, has Stop and Shop no value?—A. I believe Stop and Shop have.

Mr. SENN: Are they paying dividends at all, can you say?

The WITNESS: Dominion Stores are but Stop and Shop is not.

By Mr. Sommerville:

Q. Union Stock Yards are not written off?—A. No, full value.

By the Chairman:

Q. What about these two chain store organizations—A. They would sell to them, but I do not know to what extent. They are two of their largest customers.

Q. They are the medium through which they distributed their goods to the public?—A. Yes.

By Mr. Sommerville:

Q. All right, go ahead.—A. In addition to the above investments carried in the balance sheet it appears that the company owns 16,900 shares of £1 each of John Loudon and Company, Limited, a firm of meat importers of London, England, in respect of which we were unable to find any record of either the purchase of these shares or the income, if any, received therefrom.

Q. You did not find out when they were acquired?—A. No.

Q. These shares amount to about $80.000 in the John Loudon Company of England?—A. That is the par value.

Q. And they do not appear on the books as having been purchased?—A. No. "At March 29, 1934, profits amounting to $191,116.22 which represent the net realized profits and losses on the purchase and sale of investments, had not been credited to surplus and remained in the accounts as a deduction from the book value of the investments.

Q. What does that mean?—A. That means that there is a reserve of $191,000 to be applied against the book value, and is applied in this balance sheet, which reserve was built up through certain trade profits less losses.

Q. Where is it applied in the consolidated balance sheet?—A. Sundry investments; and part of it is applied on government and municipal bonds.

Q. In operating—buying and selling certain investments they make a profit?—A. Yes.

Q. And that profit does not go into the surplus account?—A. No.

Q. But they apply that profit in reducing the book value of the investments they hold?—A. Yes.

Q. And in that way gradually wiping out the book value of the investments?—A. Well, I suppose ultimately if these profits amounted to the total of the investments they would.

Mr. Factor: Have they written them off?

By the Chairman:

Q. Let me put it this way: sundry investments and mortgages at book value $579,000. If this item of $191,000 had not been written off then it would show sundry investments and mortgages at book value as $579,000 plus $191,000?—A. Perhaps not plus $191,000 but plus some part of $191,000, because the reserve is also applied against government and municipal bonds to some extent.

Q. Exactly?—A. I do not know the exact distribution of the reserve.

Q. But what portion of it —A. $10,000 is against the government bonds.

Q. In other words, it would show the value of these investments as $579,000 plus $181,000?—A. Yes.

Mr. Factor: Where does the amount disappear to? It does not show in the surplus $4,000,000.

The Witness: No. It is used as the reserve to reduce its assets.

By Mr. Sommerville:

Q. Some day when the assets are sold the assets will realize a larger amount than is shown in the balance sheet. That is the only way in which it would be reflected?—A. Yes.

Q. We had a similar thing in connection with the tobacco dividends; we had the dividend from Tuckets of which $250,000—

Mr. Factor: In the case of tobacco it was plainly stated with regard to non-disbursed surplus, and here it is carried.

The Witness: In order that there should not be any misunderstanding there is $125,000 of profit made on these trades which has gone into profit and loss account in addition to this $190,000.

By Mr. Kennedy (Peace River):

Q. There is one question I would like to ask. With regard to the year 1931 I believe the net income to percentage to invested capital was 3·30 per cent?—A. 1931? No, that is 1932.

Q. 7·24?—A. Yes, 1931.

The Chairman: 14·30 is for 1934.

Mr. Factor: There is a mistake here.

By Mr. Kennedy (Peace River):

Q. 1930 is 7·24?—A. They have dropped a line there.

Q. What should it be?—A. 1929, 15·16; 1930, 14·05; 1931, 7·24.

Q. Take that 7·24. Here is a statement in the fourth annual report balance sheet of the 26th March, 1931. The most striking feature of the balance sheet is the reduction in bank loans within the year. March 27, 1930, bank loans are stated at $5,902,921.97. In addition the company was operating by special loans $1,750,000, or a total of $7,652,921.97. In March 26, 1931, total bank loans $1,616,394.48, a reduction within the year of $5,536,527.49. Is that

included in the 7·24?—A. It has nothing to do with it; one is operations and the other is reduction of assets.

Q. The company starts off with loans of $7,000,000 and pays off within the year in operations $5,000,000?—A. Well, it might have had an inventory of $10,000,000 to commence with and cut it down to $5,000,000. I do not know whether that is so.

Q. If it was made through the operations of the company during the year without a sacrifice?—A. It could not be because the operations only resulted in a profit of $838,000 and the depreciation $750,000 would be one million and a half. You say the bank loans would reduce.

Q. Five and a half million?—A. The rest must have come from a reduction in the current assets or increase in the current liabilities.

Q. How did they make the money to pay the bank loan? You cannot pay bank loans without money?—A. In that year they reduced their inventory $4,100,000.

Q. That is, the stock was falling fast and they bought it cheaper?—A. No. They sold $4,000,000 worth of inventory.

Q. Less goods in storage?—A. There would be a difference.

Q. Well, I would like the information?—A. That is the explanation. They have realized on their inventory in the form of cash—inventory was turned into cash, and the cash was applied in reducing the bank loan.

By Mr. Sommerville:

Q. Let us have the inventories at the beginning of the fiscal period 1931 and the inventories at the end of the fiscal period?—A. The inventory at the commencement is $10,188,568.34.

Mr. Factor: Commencing 1930 or 1931?

The Witness: 1931.

By Mr. Sommerville:

Q. As at what date?—A. The end of 1930, March 27th, $10,188,568.34; and the inventory the next year is $5,912,970.05.

By Mr. Kennedy (Peace River):

Q. Yes, but there was a big drop in prices in the meantime. I do not think that shows it?—A. Of course, I cannot pin it down to any specific item. You would have to take a balance sheet at the beginning and end of the periods and take the net current assets—the whole of the current assets less liabilities and determine the balances, and that must be the amount.

The Chairman: The total current assets at the end of March, 1930, were $17,000,000 odd and for 1931, $11,700,000. There is a reduction.

Mr. Kennedy (*Peace River*): I can see that all right. The price of the finished product dropped a lot more slowly than the price of cattle and hogs. That is the reason, in my judgment, why the bank loans were paid off; and, of course, the inventories show the drop because of the lower price at which they bought material; it was not by sacrificing the amount in hand.

Mr. Sommerville: Your thought was that the inventories on the 26th March, 1931, represented lower values than some inventories the previous year.

Mr. Kennedy (*Peace River*): You do not pay off bank loans by that method; you pay them off making a certain profit on the year's operation.

The Chairman: Of course, there is an important point there. What Mr. Kennedy is questioning is the basis of valuing the inventory at the end of 1930 and the following year 1931.

Witness: Yes, sir. I realize that; but, of course, the payment of bank loans has nothing to do with the current operations; it is a question of getting cash from some course to repay them.

Mr. KENNEDY (*Peace River*): I cannot go to the bank to pay off loans and say, "I am sorry, my inventories are down"; I have got to produce the cash.

The CHAIRMAN: I think you had better ask the company's representatives when they come on.

By Mr. Factor.

Q. I feel as Mr. Kennedy does. We are not technical experts. I would like some explanation of it. I do not think I can agree with Mr. Kennedy, but I cannot understand the explanation?—A. The simplest way to do it would be to let us prepare a tabulation showing the difference between these assets for the two years.

Q. It all depends upon what basis the inventory was built at, say, the end of 1931. What would the inventory consist of in a business of that kind, speaking generally?—A. Packing products.

Q. The processed products?—A. Not necessarily; principally processed.

By Mr. Young:

Q. It would not include the live stock paid for and not yet killed?—A. Yes, but there would not be a very large amount of that.

By Mr. Factor.

Q. That is principally on processed products. Mr. Kennedy's argument does not hold good, because it does not make any difference what they paid for their hogs and cattle if the inventory is carried on the processed product. What principle is adopted in valuating the processed product in the inventory?—A. Lower of cost of market.

Q. I would like the auditor to investigate this point of the payment of the loan of over $5,000,000. Was it actually paid by writing off assets, or where does the money come from?—A. Well, I don't know.

The CHAIRMAN: If you take your sales for the two years, it would indicate whether or not there was an extraordinarily large sale that year.

Mr. FACTOR: I would kind of like to know if the profits of that year were for that amount.

Mr. KENNEDY (*Peace River*): Would they be used to pay for bank loans?

By Mr. Sommerville:

Q. Perhaps the auditor will this evening prepare his statement on that for us?—A. We can get a statement. I may say that we have the whole picture here, but it is for the whole period; it would answer the question exactly, but we have got it taking the whole net income, whereas if we had that year by year we could answer your question in any specific year.

By the Chairman:

Q. Well, take the question asked by Mr. Kennedy (*Peace River*) and Mr. Factor, and work out a table to show the answer?—A. What particular year is it you want?

Mr. KENNEDY (*Peace River*): 1931.

The CHAIRMAN: It is the year between March 27, 1930, and March 27, 1931, that is wanted.

The WITNESS: Yes.

The CHAIRMAN: All right, Mr. Shepherd, proceed with your statement.

The WITNESS: In addition to the foregoing the face value, $1,672,600, of of the bonds of The Harris Abattoir Company Limited, William Davies Company, Inc., are carried in the books as $1,573,001.30, the difference, 99,598.70, representing a profit on purchases by Canada Packers Limited of bonds of its subsidiaries.

By Mr. Sommerville:

Q. Where would that be shown in the balance sheet?—A. They are shown by the net figures.

Q. That is in the Consolidated Balance Sheet?—A. It is in that $1,486,655.

Q. All the stock of the Davies Company and the Harris Abattoir Company are shown at cost less reserve?—A. Yes.

Q. That is, $1,486,655.49?—A. Yes.

Q. These have a face value of $1,672,600?—A. Yes.

Q. And these are the bonds of their own companies?—A. Yes, which they acquired.

Q. Which they acquired for $1,573,001.30—in other words, they made a profit?—A. They are carried on the books at $1,573,000 and the $99,000 is deducted from that figure.

Q. And the $99,000 profit—?—A. No, $99,000 deducted from the $1,573,000.

Q. No, the $1,573,000 deducted from $1,672,000?—A. The $99,598 is the difference between the par value and the book value, and this book value is still further reduced by $86,345.81.

Q. So that these bonds are carried in the consolidated balance sheet at a sum which is less than the par value by the amount of $186,000?—A. Approximately.

Q. And these are the bonds of their own companies?—A. Yes.

Q. About the par value of which there can be no doubt?—A. The par value is set up.

By the Chairman:

Q. Now, tell me—leaving for the moment the $99,000 out of the picture, but taking the difference between the book value $1,573,000 and the disclosed value, $1,486,000, which is a difference of $86,000—is that charged against earnings?—A. It is the application of a reserve that is set up on the books. It arises from bond discount reserve from some years back due to purchasing their own bonds.

Q. No, no; but, wait—that would apply to your first shrinkage of $1,573,000 from $1,672,000?—A. It is an old reserve carried forward from the prior company's accounts.

By Mr. Sommerville:

Q. The old reserve?—A. The 86,000.

Q. The old reserve that they acquired when they bought the assets was some $86,000, and this amount is carried as against this plant?—A. And is applied.

Q. And is applied on these bonds?—A. Yes.

Q. What is the effect of that, carrying these bonds and showing them in this way at $185,000 less than their value?—A. Well, the effect is that if the bonds were hold this $185,000 would have to be credited to surplus or some other reserve account.

Q. It reduces your surplus by that amount?—A. Yes.

By the Chairman:

Q. May I ask, has that reserve which was brought forward in the books been wiped out?—A. No, sir. It is still carried and applied against that investment.

By Mr. Sommerville:

Q. It does not appear in the reserve?—A. It does not appear in the balance sheet, it is deducted from the assets.

By Mr. Factor:

Q. How long can you carry reserves like that? That is the second illustration of carrying reserves in relation to stock investment. How long can a

company carry reserves of that kind?—A. I do not know that there is any limit of time.

By the Chairman:

Q. Of course, as long as it is shown on the books and carried along year after year there is no criticism of it; but if it is written off, then, of course, it impinges upon earnings?—A. No, it would increase your earnings, because reserve is credit.

Q. Yes, but if your purchase value were $1,573,00, and then you apply that reserve to it, and reduce your assets right down to this $1,486,000, it would affect your earnings for that year?—A. What it would affect is, if you sell these bonds, you would have on the liability side $1,672,000, and you would only have $1,486,000 to do it with; and to balance it up, you would have to have a credit to surplus.

By Mr. Sommerville:

Q. A profit would then be disclosed in that particular form?—A. Yes.

By the Chairman:

Q. But as I understand it now, it is carried at $1,573,000 as an asset, but on your liability side is a reserve set up of $86,000?—A. It is applied in this balance sheet.

Q. But it remains in the book in that form?—A. Yes.

Q. Well, there is no criticism of that.

By Mr. Sommerville:

Q. Is that what you call a secret reserve?

The CHAIRMAN: It is undisclosed as far as the balance sheet is concerned.

The WITNESS: It is not disclosed.

The CHAIRMAN: It really ought to be disclosed; it ought to be $1,573,000 less the reserve set up.

The WITNESS: It is common practice.

By Mr. Sommerville:

Q. Yes, Mr. Shepherd?—A. General reserves: In April, 1928, the Company wrote up the valuation of the inventories from lower of cost of market, to cost and transferred the difference $586,268.95 to "General Reserve." From time to time additions to this reserve were made out of profits and by transfers of the surpluses in sundry minor reserves. At the end of each fiscal year from 1929 to 1932 the Company spread this reserve on the Balance Sheet as a reduction in the Inventories and Accounts Receivable and an addition to Accounts Payable.

Q. Wait a minute: up to 1932 this reserve which was in excess of half a million dollars' worth was not shown in the balance sheet as a general reserve, but apparently was deducted from inventories and from accounts receivable?—A. Yes.

Q. On the one hand applied as an addition to accounts payable; on the other—?—A. Yes.

Q. In that way it appeared on the books, but did not appear in the balance sheet?—A. Not directly.

By the Chairman:

Q. Well, where is it now, what has become of it?—A. Most of it, I think, has been used up in bringing the inventory down to lower of cost or market.

By Mr. Sommerville:

Q. At any rate, up to March 30, 1933, that was the position with respect to that general reserve. Now, what happened then, Mr. Shepherd?—A. At March 30, 1933, the Company reverted to the policy of valuing the inventories at lower of cost or market, and an amount of $615,000 was transferred to Profit and Loss Account from the General Reserve, which, before the transfer, amounted to $840,457.71. At March 29, 1934, the balance of the General Reserve, $225,457.71, was transferred to Profit and Loss Account. This was used to reduce the inventory formerly being carried at cost.

By Mr. Kennedy (Peace River):

Q. How much was it, $600,000—what?—A. That is, $615,000.

By the Chairman:

Q. Will you make clear to myself and my colleagues just what effect that inventory had on the profit and loss account?—A. Let me take the balance sheet first, it would not have any effect on the balance sheet.

By Mr. Sommerville:

Q. Because it was already there?—A. Yes. But here they credited $615,000 to profit and loss account, which would reduce the cost value at which the inventory was included to lower of cost or market.

By the Chairman:

Q. What would be the effect upon the profit and loss account?—A. To lower of cost or market, if this were done consistently, it would not have any effect, but it would affect the figures in the profits for that year if the commencing inventory were at cost.

Q. That is the point I am getting at. For that particular year this profit and loss account would show a diminution of $615,000, and a corresponding reduction of inventory in the assets?—A. The $615,000 was a credit for the very purpose of offsetting that.

Q. A credit, where?—A. In the profit and loss account, to offset that diminution.

Q. It had already been shown as an earning?—A. Yes.

Q. It was carried forward in the profit and loss account?—A. Carried forward in reserve, being taken out of profit and loss account under prior purposes and credited to reserve—now it is brought back and put in a profit and loss account to offset these losses in the inventory value.

By Mr. Sommerville:

Q. Inventory values dropped by the amount of $615,000 and this amount was brought back into the profit and loss account to offset that drop?—A. That is so.

Q. Is that the full effect of it?

By Mr. Factor:

Q. May I ask something which may appear a foolish statement—I hope not—is there any way that you can prepare a statement for us showing the gross receipts by this company since 1929, and showing the gross profits?—A. It is right there.

Q. Right where?—A. I think you got that, under net income.

Mr. Factor: I am somewhat, shall I say, perplexed. I cannot figure these things out. Just as a plain man, is there any way in which you can prepare a statement showing what profits this company has made since 1929, including in that all reserves which you as an auditor consider are reserves which should not have been taken out of profit and loss account, if I may put it that way?

For example, in another industry which we were investigating we got a picture of the financial situation by a plain statement of what the profits were. Is there any way you can do that?

The CHAIRMAN: What you mean, Mr. Factor—and I think it is very desirable that we should have it—is not so much what the net earnings are or what the net income was after depreciation, but rather what the gross income was and then the disposition of the gross income?

Mr. FACTOR: Exactly.

The CHAIRMAN: Whether reserves or dividends or whatever use may have been made of it.

Mr. FACTOR: Yes. If the sales for the year were $100,000,000, just figure out the gross returns on those sales and figure out how you arrive at the net returns.

The WITNESS: It is done here, only these start from the net income and show exactly what happened to it.

By Mr. Sommerville:

Q. You start from the net income. Take this statement you have prepared showing the disposition of the net income from the various packing companies. Will that help clear up the situation?—A. That shows exactly what the net income was and what happened to it.

Mr. FACTOR: That is not what I mean. I don't want the net income. I want some statement to show how you have arrived at the net income.

The CHAIRMAN: You want the disposition of the gross income. That is really what you want?

Mr. FACTOR: Yes.

The WITNESS: Well, I would say in the case of Canada Packers you cannot get the gross income because the accounts are departmentalized.

By Mr. Factor:

Q. Is there no way of accumulating that?—A. Yes, you could accumulate them, but they have got eight plants, some sixty departments, and there are thirteen periods in a year, thirteen fiscal periods.

The CHAIRMAN: May I make a suggestion to Mr. Shepherd and I think probably it will meet what is in Mr. Factor's mind and also in my own. If Mr. Shepherd will take the analysis he has made here of these different sums that you notice referred to as rather out of the ordinary, and formulate them into a statement indicating where they are arrived from, what disposition was made of them and what effect they have upon the gross earnings of the company, I think it would assist us.

The WITNESS: All the reserves mentioned?

The CHAIRMAN: Those items you have mentioned here.

By Mr. Factor:

Q. There is a statement Mr. Shepherd made that I cannot understand. You say you cannot prepare a statement to show the gross income of Canada Packers for one year, say the year 1933, showing what the gross income is?—A. Just what do you mean, sales?

Q. Well, I mean sales?—A. You have got the sales.

Q. What would the gross income be, as an auditor—A. I would say sales less cost of sales.

Q. Exactly. That is exactly what I mean. Can you prepare a statement showing sales less cost of sales?—A. The books of Canada Packers are not designed to show that. They show departmental figures.

By Mr. Sommerville:

Q. Is this not the situation: All the various plants are operated independently?—A. Yes.

Q. And all the various departments in these plants are operated independently, and each department sends in its net position, not the gross less so much? A. Exactly.

Q. And what comes into the head office is the net position, and it was the net position that you had to work on?—A. Exactly.

Mr. FACTOR: It certainly does not present a picture to me at all, talking very plainly. I could see a picture, if there were $100,000,000 of products sold, and it cost $85,000,000 or $90,000,000 to produce those products, that there is a gross return of $10,000,000; then some statement would show how that gross return was disposed of.

The WITNESS: Well, in order to get that you would have to practically rewrite the books. That is what we tried to get.

By Mr. Sommerville:

Q. That was obtained in Wilsils and Gainers where you had single entry? —A. With smaller companies you can get it.

Q. But when one office receives from many departments and many plants just the net position, then you would have to go back into those various plants to get that?—A. Yes.

By Mr. Factor:

Q. Then you have had no opportunity, as an auditor, of examining the net position of these individual departments; you just took the net positions as the head office received them and you have prepared a statement of the net position, and we have to go by that?—A. We say that, yes. We have tested.

By Mr. Sommerville:

Q. You did examine Toronto and Hull, two plants?—A. Yes.

Q. But not the others?

By Mr. Senn:

Q. Do I understand that a certain amount of the profits made from each of these plants are set up in a reserve for those individual plants?—A. Oh, no.

Q. I can't see why you can't get the gross income, that is, the gross profits? A. Well, for the reason that I mentioned, that you have got to consolidate this enormous mass of figures on an entirely different basis from the basis in which they are presented in the books.

By Mr. Kennedy (Winnipeg):

Q. Could you get it by going to the individual plants?—A. You could get it by tabulating the figures.

Q. From the individual plants?—A. From the individual plants.

By Mr. Sommerville:

Q. It would mean tabulating the figures for thirteen accounting periods in each year?—A. Yes.

Q. And the period is every four weeks?—A. Yes.

Q. The net position every four weeks is sent in?—A. Yes.

Q. You would have to go into each of the plants and take the statements of assets and liabilities, or operations and costs for each of these periods?— A. Exactly.

Q. Going back of the net figures?—A. Yes. To give you an example, it took four men four weeks to tabulate the figures for one year in Toronto. We tried to get that.

By Mr. Factor:

Q. After having received the net position of the individual plants?—A. No, this is the Toronto plant.

Mr. SOMMERVILLE: The one plant.

By Mr. Factor:

Q. You examined the Toronto plant?—A. To tabulate these figures at the Toronto plant.

By Mr. Sommerville:

Q. It took four men four weeks to tabulate the figures in the one plant? —A. It virtually means rewriting the books.

Q. The reason for that being that in packing house practice, departments are conducted individually?—A. Yes, in the larger packing houses.

Q. In the larger packing house industry; I think the same thing applies in Swifts, does it not?—A. Yes.

Q. And the same thing applies in the large packing houses on the other side?—A. In the States, all of them.

Q. Each of these departments being conducted as separate departments and only the net results go into the head office?—A. Yes.

Mr. SENN: Does the head office not know the position they are in, in that respect?

By Mr. Sommerville:

Q. The head office has no consolidated statement of the operations of the various branches?—A. No.

Q. No, none of them have. Each branch has its own statement prepared every four weeks.

Mr. FACTOR: A very curious system.

Mr. SOMMERVILLE: It is.

Mr. KENNEDY (*Winnipeg*): Would the auditor's statement of the individual plants show the position?

Mr. SOMMERVILLE: There are none, except inside auditors.

Mr. KENNEDY (*Winnipeg*): Whether they are inside auditors or not, would it not show the position?

The WITNESS: They were checking the figures as produced.

Mr. HEAPS: It is not really an audit, is it?

The WITNESS: Oh, yes.

Mr. HEAPS: Internal audit.

The WITNESS: Well, they may be.

Mr. SOMMERVILLE: Just an internal audit.

Mr. HEAPS: By their own employees.

Mr. SOMMERVILLE: The consolidated audit that is spoken of if a consolidated audit only of the statements that come in from the plants, accepting those plants' statements as a basis, and not going back of them.

Mr. FACTOR: I understand. But to put it rather plainly, if I wanted to know what happened when the Canada Packers, say in the year 1933, sold we will say $80,000,000 of goods, and wanted to know what happened, what they paid for them, what labour went in, what other items went into that, it is impossible to obtain it.

The WITNESS: To get the aggregate, yes, unless you spend an enormous amount of time to get it. They treat these departments on what almost might be called a basis of individual businesses. The man running the department is responsible, and he either makes a profit or a loss.

By Mr. Factor:

Q. You were the auditors for Burns & Company. Did you recommend that system of bookkeeping?—A. No, I can't say that I did. But it is the system which is in effect, as far as I know, in all the larger packing companies. It is a system designed because the operators get the information they want. The information is not being got for outsiders or for the shareholders. It is to assist the operators, and that is the way they want it.

Q. Under that system, even the head office has not a complete picture of the individual branches?—A. Well, perhaps somebody else could tell you more about that than I can.

By Mr. Sommerville:

Q. They have a picture of the results?—A. Yes.

Q. But perhaps, Mr. Shepherd, starting from the net returns, you have built up certain figures that may be helpful to us, and that is where I think my friend, Mr. Factor, and the members of the committee may get considerable help. Look at this disposition of the net income for the period from 1927 to 1934:

INVESTIGATION OF PACKING COMPANIES

DISPOSITION OF NET INCOME FOR THE PERIODS REVIEWED

—	Canada Packers, Limited, Aug. 15, 1927, to Mar. 29, 1934	Swift Canadian Co., Limited, for the five years ended Oct. 28, 1933	Wilsil Limited, for the five years ended Dec. 31, 1933	Gainers Limited, for the five years ended Sept. 30, 1933	F. Hunnisett, Jr., for the year ended Dec. 31, 1933
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Net Income	7,365,332 61	124,429 88	404,096 43	193,741 25	2,167 84
Credits to Reserves—Net	4,587,321 10	1,822,578 17	281,957 81	86,616 47	4,440 00
Extraneous Profits—Net	360,348 30	49 49	17,646 90	....	....
Total Net Income, Credits to Reserves and Extraneous Profits	12,313,002 01	1,947,057 54	703,701 14	280,357 72	6,607 84
Add:					
Increase in Capital and Funded Debt	....	....	....	161,600 00	....
Decrease in Working and Sundry Assets during period	694,135 41	4,049,020 00	10,635 54	....	....
Total Net Income, Reserves, Extraneous Profits, New Capital and Decrease in Working and Sundry Assets	13,007,137 42	5,996,077 54	714,336 68	441,957 72	6,607 84
Deduct Balance retained in the business as:					
Working Capital	6,020,997 89	....	281,955 95	24,861 30	1,472 19
Prepaid Expenses	....	....	....	540 21	353 09
Fixed Assets	380,883 98	1,334,337 10	221,380 73	232,684 21	4,782 56
Cash in Hands of Sinking Fund Trustees	49,983 20	....	....	....	....
Total Balance Retained	6,451,865 07	1,334,337 10	503,336 68	258,085 72	6,607 84
Balance	6,555,272 35	4,661,740 44	211,000 00	183,872 00	....
Disposed of as follows:					
Dividends Paid	2,896,316 50	....	68,000 00	183,872 00	....
Repayment of Balance due to Parent Company	....	4,661,740 44	....	....	....
Funded Debt	3,075,700 00	....	143,000 00	....	....
Capital Stock	583,255 85	....	....	....	....
	6,555,272 35	4,661,740 44	211,000 00	183,872 00	....

First of all, you start with the net income for the period from August 15, 1927, to March 29, 1934, of $7,365,332.61?—A. Yes.

Q. Then you add to that the amount that has been credited to reserves, the net amount?—A. Yes.

Q. And that is $4,587,321.10?—A. Yes.

Q. Then you add to that extraneous profits, net, of $360,348.30?—A. Yes.

Q. That makes a total net income for that period of $12,313,002.01?—A. No. If you will read a little further, you will see it is total net income, credits to reserves and extraneous profits.

Q. That makes a total of $12,313,002.01. Then to that you add increase in capital and funded debt—A. Not in this.

Q. Not in this case?—A. No.

Q. You add decrease in working and sundry assets during the period of $694,135.41?—A. Yes.

Q. Why?—A. Because that is part of the amount that has to be accounted for.

Q. That leaves you total net income, reserves, extraneous profits, decrease in working and sundry assets totalling $13,007,137.42?—A. Yes.

By Mr. Factor:

Q. Which means what?—A. That is the total amount that we are going to account for, and here is how we account for it. This is what happened to it.

By Mr. Sommerville:

Q. Is this the total amount that came from earnings of the company?—A. Earnings or credit to reserve, principally. That is depreciation reserve that they are discussing. We are adding back that depreciation reserve to the net income. Now we are going to see what happens to it.

By Mr. Kennedy (Peace River):

Q. It is made in the business, though?—A. Oh, yes.

By Mr. Sommerville:

Q. What I mean is that $13,000,000 is the total of the income plus the amount that has been taken out of income and credited to reserve?—A. Yes, which we are now putting back.

Q. You are putting it back in?—A. Yes.

Q. So that you show over the period a total income, including these reserves, of $13,007,137.42?—A. Yes.

Mr. Kennedy (*Winnipeg*): Total net income?

By Mr. Sommerville:

Q. That is total net?—A. Yes.

Q. Now you are proceeding to show what was done with that?—A. That is it.

By Mr. Factor:

Q. In these reserves and the other items, did you add those amounts for interest held back on the investments such as bonds and the stock investment?—A. Those had been used during the period, with the exception of a small amount left in the general reserve.

Q. You mean they have been disposed of somehow?—A. Yes.

By Mr. Sommerville:

Q. And they are not written back in it?—A. Well, they will be in the profits, the net income.

Q. In the net income?—A. They will show in the net income.

Q. This amount of $99,000 that has been referred to is the difference between the face value of the bonds and the price they bought the bonds at is not in this?—A. No.

Q. Nor the $86,000 further deduction is not in this, is it?—A. It is in the extraneous profits.

Q. The $99,000?—A. Yes.

Q. And the $86,000?—A. Yes, both of them.

Q. So they are both in there?—A. Yes.

Q. You have written in all those things except the item you refer to in general reserves, which you say has been used up and it reflects itself in profit?—A. Net profits.

Q. In the net profits. Then we may take it that the net position is shown as $13,007,137.42 in that period?—A. Yes.

Q. Now, what disposition has been made of this $13,000,000 odd?—A. There was retained in working capital, $6,020,997.89.

Q. They have $6,000,000 odd which they are using in the business as working capital?—A. Yes.

Q. Out of these profits?—A. That is an increase in fixed assets of $380,883.98; cash in hands of sinking fund trustees, $49.983.20. That gives you a total balance retained of $6.451.865.07, and leaves a balance to be accounted for of $6,555.272.35. That was disposed of by the payment of dividends of $2,896,316.50; the reduction of the funded debt of $3,075,700 and capital stock purchases of $583,255.85.

Q. The dividends of $2,896.000 odd is payment on the funded debt. That is bonds of—.—A. Harris Abattoir and William Davies.

By Mr. Factor:

Q. Have you any statements to show what the total bank loans were during that period?—A. They could be shown at the balance there.

By Mr. Kennedy (Peace River):

Q. Could you wipe out the funded debt with the reductions?—A. With the reductions in what?

Q. In advances?—A. If you paid off the funded debt, yes, you reduce it entirely. You would turn it into cash.

By Mr. Senn:

Q. Was that capital stock in the form of a stock bonus?

Mr. SOMMERVILLE: No.

The WITNESS: No.

Mr. SOMMERVILLE: The capital stock referred to is capital stock that they had purchased. They have used this money to purchase their own capital stock, redeem their own capital stock, their preferred shares, and thus reduce the liability on preferred shares outstanding. Now, this does not reflect itself in this memorandum that you have given us; that does not reflect the two and a half million dollars borrowed from the bank which was repaid to the bank.

The WITNESS: That is in the working capital. If the two and a half million dollars had not been repaid that would have been less.

Q. You would have had $8,000,000 working capital?—A. No, it would have been the other way. If you had shown the $8,500,000 you would have had to show the $2,500,000 in the disposition; but that was not a capital transaction, that was purely a bank loan, and is dealt with in the next figure.

Q. That is included you say?—A. In the working capital figure.

Q. In the working capital figure?—A. Yes.

By Mr. Factor:

Q. In the year 1931 Mr. Kennedy said, or I thought he said it had been repaid.—A. Mr. Sommerville is referring to the $2,500,000 of the original set-up.

Mr. SOMMERVILLE: I am referring to the $2,500,000 that was borrowed from the bank to buy other assets.

The WITNESS: Yes.

By Mr. Sommerville:

Q. And that was repaid in 1930 and 1931?—A. Yes.

Q. And that, you say, is reflected in the fact that there is $6,000,000 of working capital?—A. Yes.

Q. And if you take the $2,500,000— —A. If instead of taking the $2,500,000 from the bank they borrowed it on a bond issue then it would have been shown below as disposed of, but it did not.

By Mr. Factor:

Q. Well then, the other monies that were borrowed from the bank since the amalgamation, have you a statement of monies borrowed, and how much of it was paid, and how it was paid?—A. Well, the working capital is the difference between current assets and current liabilities which takes in the bank loans at the commencement and end of this period.

Q. Well then, is it your contention that all the bank loans were repaid by reducing assets and not paid out of earnings?—A. Oh no, I do not contend that.

By Mr. Senn:

Q. Those borrowings from the bank would be used as working capital?—A. Yes, and they are in that net figure.

By Mr. Young:

Q. Is this true, that at the beginning of this period you had reserves of $4,587,000?

Mr. SOMMERVILLE: No, they accumulated during that period.

Mr. YOUNG: No, at the end of the period they had more than that.

Mr. SOMMERVILLE: No.

Mr. YOUNG: That is the total accumulation?

Mr. SOMMERVILLE: The total during the period.

The WITNESS: Oh no, that is the accumulation during the period.

By Mr. Young:

Q. During that period?—A. Yes.

Q. And the net profits during that period were $7,300,000?—A. Yes.

By the Chairman:

Q. Well, you are disregarding I understand, the $5,000,000 approximately; that was added to the $1,800,000 in making the total $6,862,000 odd?—A. Yes.

Q. You are disregarding the $5,000,000 of depreciation that has been added during that period?—A. No, that is the original. That $5,000,000 is a surplus arising from appreciation.

Q. No no, excuse me, you do not get my point. In your balance sheet you have a reserve for depreciation $6,862,000 of which $1,800,000 was brought forward from the earlier operation?—A. Yes.

Q. But since 1927 $5,000,000 has been added to that?—A. $4,587,000.

Mr. FACTOR: That is exactly what I cannot understand, Mr. Chairman. These two items of reserve for depreciation and surplus on appraisals is a total of $12,549,000, which came out of the earnings of the company?

The WITNESS: You are referring to what?

By Mr. Factor:

Q. To the Consolidated balance sheet.—A. The appraisal surplus arose before this company was formed and was not provided by this company. All that was provided by this company was $4,500,000, and the $1,800,000 had arisen before this, so you take the $1,800,000 and add the $4,500,00 to it and you have got the depreciation reserve now.

Q. That is not the point I am trying to make. You show in this column the net income plus the other items of $13,000,000?—A. Yes.

Q. In your Consolidated balance sheet it shows a reserve for depreciation which must come out of the earnings of the company.—A. $4,500,000 of it did, and $1,800,000, you will recall, was taken over from the previous company.

Q. $4,500,000 came out of the earnings of the company?—A. Yes.

Q. Well, is that $4,500,000 included in this $13,000,000?—A. Oh yes.

Q. It is included?—A. Yes, it is the second item there, Credits to Reserve.

Q. You deduct the original $1,800,000 from the $6,000,000?—A. Yes. This $4,500,000 is the actual amount provided during this period.

Q. But the surplus on appraisals, what item disposed of that?—A. That has nothing to do with this company; that was just taken over and could be deducted from the value of the assets that were taken over originally.

Q. It has nothing to do with the profit and loss account?—A. Oh no, not at all.

By Mr. Sommerville:

Q. Now, Mr. Shepherd, is the surplus of $4,654,581 shown on the Consolidated balance sheet reflected anywhere in this schedule showing disposition of net income?

Mr. FACTOR: Credited to reserve.

Mr. SOMMERVILLE: No.

The WITNESS: Well, it is not shown directly there, but it represents the net income less the dividends and a few adjustments.

By the Chairman:

Q. Would you put down certain items and then see if we can accomplish something. Again I come back to that reserve for depreciation, $6,862,000. I understand you to say previously that $1,800,000 had been brought forward from the old company prior to this amalgamation?—A. Yes.

Q. Now, that is one item, if you will make a note of that.—A. Which is now shown as $5,600,000.

Q. All right, make a note of that. Then you have a surplus here shown on your balance sheet in addition to that of $4,654,000; that is in this balance sheet?—A. Yes. Well, you want to know how that is arrived at?

Q. No I do not. Then in addition to that you have paid out in dividends in the meantime, which is not shown on the balance sheet at all $2,900,000?—A. Yes.

Q. And in addition to that you have paid off funded debt $3,075,000?—A. Well, that funded debt hasn't anything to do with the surplus.

Q. No, but it has been paid out of earnings, that is all I am getting at.—A. Oh no.

Q. No, but you show it here as paid out of earnings.—A. No, it is not necessarily out of earnings; it is paid out of the general reduction of assets.

Mr. FACTOR: That is not what you show in your statement, Mr. Shepherd. In your statement you show a payment on funded debt.

Mr. SOMMERVILLE: Out of net income.

Mr. FACTOR: There is a disposition of $13,000,000.

The WITNESS: Yes, but that is the cash coming in in that business from other sources, not necessarily the net income.

By Mr. Factor:

Q. I am not talking about the net income, I am talking about the $13,000,000. You show an item of $13,000,000 and you dispose of it in the two columns below.—A. The two things are entirely divergent. One is the surplus and the other is the disposition of net income. The members of the committee have a statement here which is headed "Analysis of Surplus Accounts," and if they will look at that statement they will see what happened to the net income.

Mr. SOMMERVILLE: All right.

The WITNESS: That takes the total net income for the period.

Mr. SOMMERVILLE: That will go in at this point:—

INVESTIGATION OF PACKING COMPANIES

ANALYSIS OF SURPLUS ACCOUNTS FOR THE PERIODS REVIEWED

—	Canada Packers, Limited, Aug. 15, 1927, to Mar. 29, 1934	Swift Canadian Co., Limited, for the five years ended Oct. 28, 1933	Wilsil Limited, for the five years ended Dec. 31, 1933	Gainers Limited, for the five years ended Sept. 30, 1933	F. Hunnisett, Jr. for the year ended Dec. 31, 1933
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Surplus at Beginning of Period Reviewed	....	5,002,918 95	....	46,079 95	....
Add:					
Net Income for Period	7,365,332 61	124,429 88	404,096 43	193,741 25	2,167 84
Adjustments of Reserves, etc., applicable to Prior Years—Net	185,565 54	49 49	17,646 90	....	....
	7,550,898 15	5,127,398 32	421,743 33	239,821 20	2,167 84
Deduct:					
Dividends paid on Preferred Stock—Cash	2,896,316 50	....	68,000 00	....	....
Common Stock:					
Cash	....	....	....	98,582 00	....
Stock Dividend	....	....	....	85,290 00	....
Total Dividends	2,896,316 50	....	68,000 00	183,872 00	....
Surplus at End of Period Reviewed	4,654,581 65	5,127,398 32	353,743 33	55,949 20	2,167 84

The WITNESS: That starts with the total net income for the period and which is adjusted by certain reserves applicable to prior years, and so on; and shows the amount paid out in dividends, and the remaining balance is the surplus now shown on the balance sheet.

Mr. SOMMERVILLE: Yes, $4,654,581.65.

By Mr. Factor:

Q. Where did the $3,000,000 odd come from to pay the funded debt?—A. From all the reserves of the company, cash taken into the company.

Q. Not necessarily from profits?—A. No. Profits really have no relation.

By the Chairman:

Q. You see, Mr. Shepherd, what the committee is concerned about—and I know is the thought in the minds of the members of the committee—is that we want to be able to estimate, and estimate clearly and justly, whether the relation of the earnings of this company—not its disclosed net earnings but its real earnings—have been such as to indicate unfairness in the treatment of the consumer on the one hand and the producer on the other. I think in this instance the producer is the fellow that has suffered perhaps most, and it is difficult for

us to form a judgment out of this statement unless we could have it somewhat simplified. I think the committee will agree with me, that if we could get it in a more simplified form, perhaps proceeding with these statements as they are and then later getting a more simplified statement, showing the gross if possible; I appreciate your difficulty in not getting that from the books of the company, because that would be an endless task to change the system; you have either got to accept the company's basis or else go back of that and, as you say, rewrite the books. As I said a little while ago, if we were to take the net earnings then draw into that picture as much of the disclosed depreciation and reserve charges as we could and make a composite picture of that, we would be better able to form a judgment.—A. Well, we really have it here, sir, on the percentage of invested capital, that is, after charging depreciation with approximately $750,000 a year.

Mr. SOMMERVILLE: No, you have not in mind what Mr. Stevens was asking you for. I think possibly after recess to-night we can prepare a memorandum of what is required.

The CHAIRMAN: I think probably we had better proceed before we get into too much detail; let us proceed with the general picture and see if we can work out this difference and work out a composite picture.

The WITNESS: As shown in the balance sheet at March 29, 1934, the Reserve for Income Tax amounted to $489,803.32, of which $430,000 was provided by a charge to operations during the year ended March 29, 1934. No final assessment has been received from the Income Tax Department for the fiscal years subsequent to March 27, 1930, and the company has included in the amount of $430,000 a provision of $153,000 for adjustments in respect of depreciation and other charges which may be disallowed by the Income Tax Department.

By Mr. Sommerville:

Q. Now, this year out of the operations of 1934, the company have set up a total amount of $430,000?—A. Yes.

Q. For the past five years the amount set up was somewhere from $150,000 to $175,000?—A. The amount paid averaged—

Q. The amount provided averaged?—A. About $100,000.

Q. Yes, the amount provided averaged about $100,000?—A. Yes.

Q. And this year the amount set up out of earnings before arriving at net income was $430,000?—A. Yes.

Q. Because of the suggestion of providing for some adjustments on income tax?—A. On depreciation rates.

Q. On depreciation rates?—A. Yes, which the department might disallow.

Q. Because of the fact that the department might disallow depreciation rates they have set up an extra reserve of $430,000 against the profit for this year or the past year?—A. Yes. Then:

(*b*) To determine the spread between the price paid to the producer of live stock and the price received by the packer from the sale of the various products manufactured from live stock.

In the case of Canada Packers Limited a large part of the company's transactions are represented by the purchase, manufacture and sale of products which are not derived from live stock. The business is divided into numerous departments, each of which is concerned with the handling of a particular product or group of related products, and the accounting records of the company are designed to conform to this division and furnish separate operating results for each department. In the case of live stock certain products pass through a number of departments and in the process, products derived from other species of live stock are combined and sold as one finished product.

In common with other packing establishments, Canada Packers Limited maintains a system of accounts which does not permit the actual of individual products to be determined. To secure approximate profit or loss margins for their own information the officials occasionally have "test runs" made, but for ordinary operating purposes the company estimates its net return per 100 pounds of dressed weight of hogs on a formula, the details of which are shown below for the week ending May 12, 1934.

By Mr. Sommerville:

Q. Then you set out this formula?—A. Yes.

Q. And the formula shows the price per pound for hams, bellies, loins and shoulders?—A. Yes.

Q. And the percentage of dressed weight of each, the cutting credit, the killing credit, and this shows a net return per 100 pounds of dressed weight of $10.38?—A. Yes, $10.38.

Q. And in that formula the company have charged an amount of 6 per cent interest on the capital invested in that particular operation?—A. Yes, that is so.

Q. That is the practice of the company?—A. Yes.

Details	Per Cent of 100 Pounds of Dressed Weight	Price per Pound	Value
	%	cents	$ cts.
Hams	19·7	19·0	3 74
Bellies	14·2	19·0	2·70
Loins	16·2	17·2	2·79
Shoulders	18·6	11·0	2 05
	68·7		11·28
Cutting Credit		1 10	
Killing Credit		0·20	1 30
			12 58
Less Operating Cost of Hog Departments, including interest at 6% on the capital employed			$ 2 20
Net Return per 100 lbs. dressed weight			$ 10 38

Q. If $100 worth of hogs were purchased, 6 per cent would be added, or $6?—A. I do not know that it would work out exactly in that way.

Q. Six per cent?—A. On the basis of 6 per cent per annum.

Q. On that basis 6 per cent will be added to the amount that is invested in the operation of each purchase?—A. Yes.

Q. And that is so throughout all departments?—A. Yes.

Mr. Young: Per annum on each purchase?

The Witness: No, on the assets invested in that particular department.

Mr. Sommerville: That includes money used for the purchase of the product for that department.

Mr. Young: But not on each separate purchase?

The Witness: Not on each purchase.

By Mr. Sommerville:

Q. It will be on the total amount?—A. On the capital.

Q. On the working capital?—A. Yes.

Q. In other words, each department on that basis could split absolutely even, and not show a profit, and not show a loss, and yet the company would

make 6 per cent on the entire amount of working capital used during the year?—A. On the invested assets.

Q. As a matter of fact, although the department may show no loss or no gain, the company would show a profit of $1,500,000 on last year's operations, or approximately that?—A. I do not think it would be as much as that.

Q. What is it?—A. Approximately $1,000,000.

Q. In their interest account last year, do not they show something like $1,500,000?—A. $1,500,000, subject to income tax.

By the Chairman:

Q. May I ask one question there? Is there anywhere a statement in your investigation showing the total amount of live stock purchased and the exact amount paid for it, before any processing charge or any other charge?—A. We have the head purchased.

Q. The number of cattle, sheep and lambs each year?—A. But not the amount.

Mr. FACTOR: There again is the point I raise. He has just the net income of the departments.

Mr. KENNEDY (*Winnipeg*): Mr. Chairman, does not every path lead up to this difficulty: We do not get from the individual company or plants a complete picture showing how their net income is arrived at. We only get a recapitulation of those net incomes, which leaves us in the dark.

The CHAIRMAN: I think we will have to try to get that. We will have to ask the company's representatives to get us that.

Mr. KENNEDY (*Winnipeg*): To me it is inconceivable that the individual companies have not such material to supply us.

Mr. FACTOR: Even to the extent of getting their internal audit.

Mr. KENNEDY (*Winnipeg*): Absolutely. And we could then put in a few tests as to its correctness, without going into the whole thing.

Mr. EDWARDS: Is not that the way that each individual company arrives at its own net income?

The WITNESS: On January 22, 1934, the company made a special test on one hog of a good type to determine in detail the weight of product which could be obtained from the hog and to determine the yields by weight from processing certain cuts of the hog in the curing and smoking operations. Particulars of this test were furnished to us by the manager of the provision department, and based on these figures and on information secured from other employees we prepared summaries which purport to show the selling value, purchase cost and processing expenses for the weeks ended December 14, 1933, and March 29, 1934. The original computations developed abnormal estimated net profits in both these weeks, but after advising the manager of the provisions department of the results shown he stated that certain of the valuations, yields and processing expenses which he had originally furnished to us should be changed. After giving effect to these adjustments net losses were developed of $1.15 and 96 cents on the hog for the weeks ending December 14, 1933, and March 29, 1934, respectively, after deducting the processing expenses which include approximately 42 cents for interest at 6 per cent on the capital employed.

In our opinion test runs are of little, if any, value in determining the spread due to the impossibility of reconciling the result of the test runs made by the company with the books of account, and to the facility with which the results of such runs can be altered as shown in the previous paragraph.

The CHAIRMAN: It was a fairly useless piece of work?

The WITNESS: Yes; you cannot determine anything from that.

The CHAIRMAN: What reason did they give for making those changes?

The WITNESS: The reasons were not given to me; they were given to my assistant. We can tell you what they are. They changed the hog from a bacon to a select, which made a dollar's difference right away. That was the principle.

Mr. SOMMERVILLE: After you were told of the results?

The WITNESS: After they were told of the results.

Mr. SOMMERVILLE: Then they said it should be based on a premium hog rather than a bacon hog, which made a difference of a dollar.

The WITNESS: Yes.

Mr. FACTOR: That showed a loss, on the hog.

Mr. SOMMERVILLE: That made a loss on the hog.

The WITNESS: We were unable to determine the spread on sales of beef due to the company's method of purchasing cattle in ungraded lots and subsequently grading the dressed carcasses into some forty different classes, the costs assigned to each class being determined by application of arbitrary differentials. A similar condition pertains to the purchase of small stock which are graded into seven different classes.

For these reasons we are unable to determine the spread between the price paid to the individual producer of live stock and the price received by the packer from the sale of the resulting manufactured products, and we are forced to substitute for this inquiry consideration as to whether the packer receives a reasonable or an executive return (*a*) on the capital invested, and (*b*) on the sales made to the public. The information necessary to arrive at a conclusion on these points is submitted in the section of this memorandum dealing with invested capital and sales, the average return based on the net income reported by the company being 10·20 per cent on invested capital and 1·43 per cent on sales.

Q. That is after deduction of these various reserves and depreciation reserves?—A. Yes.

Q. I wish you would let me have, if you have it available, a spare copy of the company's sheet showing the grading of cattle into various grades?—A. We have got one.

Q. It shows the purchase of the cattle and the grading into probably forty different grades.

By the Chairman:

Q. In other words, according to the practice followed cattle are bought irrespective of grades?—A. Yes, I believe so.

Q. And then the animal goes into the packing plant?—A. They are bought in lots.

Q. And they pass into the packing plants and once they are in the hands of the operatives in the packing plants they are divided up and classified into something in the nature of about forty different grades; is that right?—A. Yes, that is so.

Mr. SENN: That is the carcass; not the live animal?

The WITNESS: No.

The CHAIRMAN: Making it impossible to follow through and determine what the spread might be in that case?

The WITNESS: Of an individual case.

Mr. YOUNG: That means forty different cuts of meat.

The CHAIRMAN: No, forty different grades of meat.

Mr. FACTOR: Forty different grades of carcasses.

The WITNESS: Yes.

Mr. SOMMERVILLE: Take, for instance, baby beef. That sounds like a single grade, but in the hands of the processor it consists of five grades, choice, good, good medium, medium, and fair; each of them distinct. Heifers are

divided into nine grades as follows: choice, good, heavy good, good medium, medium, fair, plain, cutter, boner. Steers under 550 pounds are divided into eight grades. Steers. 550 to 650, are divided into choice, good, good medium, medium, and fair. Steers 650 to 750 are divided into the same five grades. Steers 750 are divided up into the same five grades. Heifer cows are in four grades. Cows are divided into eight grades: choice, good, good medium, medium, fair, plain, cutter, and boner. Bulls are divided into six grades: good, medium, fair, plain, cutter, and boner.

Mr. Young: Are all these grades reflected in different prices?

The Witness: Yes.

Mr. Sommerville: There is a grade sheet on certain shipments.

(Cattle grade sheet filed, marked exhibit 201.)

The Committee adjourned to meet Wednesday, May 30th, at 11 o'clock.

APPENDIX No. 1

INVESTIGATION OF PACKING COMPANIES

Hourly and Weekly Rates of Wages Paid

—	Canadian Packers, Limited			Gainers Limited	F. Hunnisett, Jr.	Swift Canadian Co., Limited		Wilsil Limited
	Toronto	Hull	Peterborough			Toronto	Edmonton*	
Total number of employees on hourly rates	1,051	101	104	146	15	446	290	257
Total number of employees on weekly rates	140	24	28	15	23	100	29	113
Total plant payroll	1,191	125	132	161	38	546	319	370
	%	%	%	%	%	%	%	%
Percentage of total at 15 cents per hour		17·60						
17 "		4·00	·76					
18 "		1·60	·76	·62				
19 "		2·40						
20 "		·80	7·58	3·11				10·27
22 "			2·27	·62				1·62
23 "	·08			3·11				
24 "						·55		
25 "	·08	12·80	6·82	3·11		·18	2·20	5·68
26 "	·17	·80				·18		
27 "	8·07		·76	6·21		·18	·94	
28 "	7·31	·80	3·79	1·86		·18		3·78
29 "				1·86		1·10	10·66	
30 "	5·96	3·20	11·36	8·70		·55	13·79	18·65
31–35 "	11·67	13·60	9·09	20·51	10·52	13·01	22·89	14·87
36–40 "	18·22	20·00	23·48	8·70	5·26	20·51	19·12	7·56
41–45 "	16·46	2·40	10·61	14·29		19·05	10·34	2·43
45–50 "	13·43	·80	1·51	6·21	10·52	11·54	4·70	4·33
51–55 "	3·11			4·97		7·51	1·25	·27
56–60 "	1·76			2·48	2·63	2·20	·94	
61–65 "	·76			2·48	10·52	2·93	1·25	
66–70 "	·67					1·47	2·82	
71–75 "	·50			1·86		·18		
76 and over						·37		
Percentage of total plant payroll	88·25	80·80	78·79	90·70	39·45	81·69	90·90	69·46
	cents	cents	cents	cents	cents	cents	cents	cents
Average earnings—Hourly paid employees	.39¾	.28¼	.32¼	.38	.47¾	.43¼	.37	.31½

INVESTIGATION OF PACKING COMPANIES—*Concluded*

HOURLY AND WEEKLY RATES OF WAGES PAID—*Concluded*

—	Canada Packers, Limited			Gainers Limited	F. Hunnisett, Jr.	Swift Canadian Co., Limited		Wilsil Limited
	Toronto	Hull	Peter-borough			Toronto	Ed-monton*	
	%	%	%	%	%	%	%	%
Percentage of total at $ 7.00– 8.00 per week	·16			·62				
8.01– 9.00 "								
9.01–10.00 "								·27
10.01–11.00 "	·17				2·63			
11.01–12.00 "	·17							
12.01–13.00 "	·08				2·63	·55	1·58	
13.01–14.00 "	·17						·31	
14.01–15.00 "	·17		3·79		2·63		·31	·54
15 01–16.00 "			·76				·63	·81
16.01–17.00 "			1·51	1·25	2·63		·63	
17.01–18.00 "	·08		2·27	·62	10·52	·18	·63	6·75
18.01–19.00 "				·62		·18		
19.01–20.00 "	1·09	·80		·62	7·90	·91		7·03
20.01–25 00 "	3·02	8·00	3·79	·62	26·35	6·96	4·70	12·70
25.01–30.00 "	2·94	8·00	6·06	1·24	5·26	3·85		1·89
30.01–35.00 "	1·27	1·60	3·03	1·24		2·75	·31	·54
35.01–40.00 "	1·59			2·48		·92		
40.01–45.00 "	·76					·55		
45.01–50.00 "						·55		
50.01 and over	·08					·91		
Percentage of total plant payroll	11·75	19·20	21·21	9·30	60·55	18·31	9·10	30·54
Period covered—Week ended (1934)	Mar. 22	Mar. 21	Mar. 29	½ month Mar. 31	Mar. 22	Mar. 24	Mar. 30	Mar. 24

*The wage spread at this branch does not take into consideration premiums of $212.39 paid during the week ended March 30, 1934 in addition to the regular payroll of $5,372.67.

APPENDIX No. 2

EXHIBIT "A"

CANADA PACKERS, LIMITED

The Harris Abattoir Company, Limited
Harris Abattoir (Western), Limited
Gunns, Limited
Gunn, Langlois and Company, Limited

Canadian Packing Company, Limited
William Davies Company, Inc.
The William Davies Company, Limited
Ontario Fertilizers, Limited
and their Subsidiaries.

Consolidated Balance Sheet as at March 29, 1934

ASSETS

Current Assets—		
Cash on hand and in Bank		$ 17,084 05
Government and Municipal Bonds		505,126 49
Call Loan		288,369 66
Accounts Receivable, less Reserve for losses		3,053,146 60
Inventories of packing house products, produce and supplies, including advance payments on goods purchased, goods in transit and goods on consignment, less advances by consignees		5,972,833 24
Total Current Assets		$ 9,836,560 04
Prepaid expenses		99,813 78
Sundry Advances, Deposits, Balances Receivable, and Advances to Employees for expenses, etc		70,080 89
Investments:		
Sundry Investments and Mortgages at Book Value	$579,401 60	
Life Insurance (cash surrender value)	177,524 54	
Investments in and advances to related Companies	116,072 56	
		872,998 70
Bonds of William Davies Company, Inc., and The Harris Abattoir Company, Limited, at cost, less reserve		1,486,655 49
Cash in hands of Trustees for Bondholders		67,612 01
Land, Buildings, Leasehold, Plant and Equipment (based on appraisals 1919 to 1927)		18,962,703 18
Goodwill		4 00
Total		$31,396,428 09

LIABILITIES

Current Liabilities:		
Loans payable to Bankers (secured)		$ 420,246 25
Accounts payable		819,845 18
Reserve for Income Tax		489,803 32
Accrued Bond Interest:		
William Davies Company, Inc., Bonds	$ 33,396 99	
The Harris Abattoir Co., Ltd., Bonds	48,042 00	
		81,438 99
Dividends on Preference Shares for the nine months ended March 31, 1934, payable April 2, 1934		316,701 00
Total Current Liabilities		2,128,034 74
Funded Debt:		
Bond Issues of Subsidiary Companies:		
William Davies Company, Inc.— First Mortgage Sinking Fund 6% 20 Year Bonds due 1942	1,350,000 00	
The William Davies Company, Limited— 6% First Mortgage Demand Gold Bond, held as collateral to the Bond Issues of William Davies Company, Inc. $4,000,000 00		
The Harris Abattoir Company, Limited— First Mortgage Sinking Fund 6% Bonds, due 1947	3,242,900 00	
		4,592,900 00
Surplus on Appraisals	5,686,547 59	
Reserve for Depreciation	6,862,579 65	
		12,549,127 24
Capital Stock:		
Authorized:		
100,000 7% Cumulative Redeemable Preference Shares with a par value of $100.00 each	10,000 000 00	
200,000 Common Shares, without nominal or par value		
Issued:		
60,335 7% Cumulative Redeemable Preference Shares with a par value of $100.00 each	6,033,500 00	
200,000 Common Shares, without nominal or par value—stated value	1,438,284 46	
		7,471,784 46
Surplus		4,654,581 65
Total		$31,396,428 09

HOUSE OF COMMONS, ROOM 368,

May 30, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 a.m., the Hon. H. H. Stevens, presiding.

Mr. Norman Sommerville, K.C., and Mr. W. W. Parry, K.C., of Toronto, appeared as counsel for the committee.

The CHAIRMAN: Order, gentlemen. We have the minutes of yesterday indicating the witness heard and certain exhibits filed. We will declare the minutes approved.

Now, Mr. Sommerville, will you proceed with your witness.

(Memorandum on Canada Packers Limited, submitted by auditors, on which evidence was taken yesterday and continued to-day, is printed as Appendix No. 1 to this day's evidence.)

A. B. SHEPHERD, examination resumed.

By Mr. Sommerville:

Q. There were certain statements that were being typed over night. They are not yet ready, and therefore we will proceed with the next phase of your memorandum and we will return to the question of the figures that were being prepared for the committee when the typed copies have come up?—A. Yes, that is "C".

Q. Dealing now with the part of your inquiry that was designed to determine the dressed cost of hogs, beef and small stock purchased through direct shipments, stockyards or markets and truckers, and the percentage which each of these classes bears to the total purchases, will you kindly give us the result of your inquiry?—A. The above information has been secured in connection with hogs for the months of September and December, 1933, and March, 1934, and is submitted in the following summary.

Mr. YOUNG: What is the number of the sheet?

Mr. SOMMERVILLE: This is a typed sheet. It is summarized on this. (See page 2259.)

The WITNESS: Toronto plant, September, 1933, direct shipments average cost per 100 pounds dressed weight—

By Mr. Sommerville:

Q. This is hogs?—A. Hogs, direct shipments, \$9.52; stockyards, \$9.46; truckers, \$9.22.

Q. That is to say, in September, 1933, for that month the dressed cost of the trucker hogs was 30 cents per 100 less than the direct shipment hogs?—A. That is so.

Q. And 24 cents per 100 less than the stockyard hogs?—A. That is so.

Q. Yes?—A. December, 1933, direct shipments, \$8.76; stockyards, \$8.77; truckers, \$8.64. March, 1934, direct shipments, \$12.10; stockyards, \$12.25; truckers, \$11.85.

Q. In the month of March, 1934, trucker hogs after dressing cost 40 cents per 100 less than stockyard hogs?—A. Yes.

Mr. YOUNG: Stockyards hogs cost more than direct shipments.

By Mr. Sommerville:

Q. Stockyards hogs cost $12.25 while direct shipment hogs cost $12.10?—A. Yes.

Mr. SOMMERVILLE: You will find that practically so all through.

Mr. KENNEDY (*Winnipeg*): Is that because of the higher price paid?

Mr. SOMMERVILLE: Because of the higher price paid on the stockyards.

By Mr. Sommerville:

Q. Yes, the next month, please?—A. The percentage of total purchases, September, 1933, direct shipments, 53·11; stockyards, 23·52; truckers, 23·37. December, 1933, direct shipments, 55·35; stockyards, 19·02; truckers, 25·63. March, 1934, direct shipments, 51·47; stockyards, 27·92; truckers, 20·61.

Q. That indicated that in those three months, taken just as samples, 70 to 80 per cent of the hogs purchased were not purchased on the market, but were purchased by direct shipments to the plant or from truckers?—A. That is so.

Q. And did not go through the stockyards?—A. That is so. The next tabulation is the same figures for the Montreal plant. September, 1933, direct shipments, $9.92; stockyards, $10.07; truckers, $9.63.

Q. That means that truckers cost 44 cents per 100 less than stockyards in September, 1933, at Montreal?—A. Yes.

Q. And 29 cents less than direct shipment hogs?—A. That is so.

Q. Yes?—A. December, 1933, direct shipments, $9.25; stockyards, $8.92; truckers, $8.93.

Mr. YOUNG: Here we have stockyard hogs being cheapest.

Mr. SOMMERVILLE: Yes. One cent difference between them and truckers.

The WITNESS: Yes.

By Mr. Young:

Q. 33 cents cheaper than direct shipments?—A. Yes.

By Mr. Sommerville:

Q. Will you continue, please?—A. March, 1934, direct shipments, $12.76; stockyards, $12.73; truckers, $12.10.

Q. In that case you have direct shipments costing 3 cents more than stockyards, and the trucker hogs costing 63 cents per 100 less than stockyard hogs?—A. That is so.

Mr. HEAPS: Are they from one stockyard only?

Mr. SOMMERVILLE: The stockyards in Montreal.

The CHAIRMAN: These are Montreal. The former ones were Toronto.

Mr. SOMMERVILLE: This is the Montreal plant.

By Mr. Sommerville:

Q. With regard to the figure of $12.76 for direct shipments, is that accounted for by the fact that some of the hogs are brought from the west, some of these pool hogs that are brought from Alberta?—A. Yes, the larger percentage of them are brought from Alberta.

Q. And the price paid in Alberta to the pool, plus the freight differential, would run the price up at that rate?—A. To that rate.

Q. Yes, to that rate. In other words, if they went on the stockyards at Montreal and bought their hogs there, it would raise the price of hogs at Montreal?—A. Well, I don't know.

Q. Perhaps you can't answer that?—A. No.

Q. Will you continue?—A. Percentage of total purchases, September, 1933, direct shipments, 47·98; stockyards, 37·78; truckers, 14·24. December, 1933, direct shipments, 65·23; stockyards, 28·40; truckers, 6·37. March, 1934, direct shipments, 63·91; stockyards, 34·75; truckers, 1·34.

Then the next is the Winnipeg plant. September, 1933, direct shipments, $8.77; stockyards, $9.80; truckers, $8.82. December, 1933, direct shipments, $8.04; stockyards, $7.86; truckers, $7.92. March, 1934, direct shipments, $12.40; stockyards, $12; truckers, $11.51.

Percentage of total purchases at Winnipeg, September, 1933, direct shipments, 53·07; stockyards, 14·85; truckers, 32·08. December, 1933, direct shipments, 51·33; stockyards, 32·67; truckers, 16. March, 1934, direct shipments, 54; stockyards, 35·72; truckers, 10·29.

At the Hull plant, direct shipments, September, 1933, $9.83 and truckers, $9.39.

Q. There is no market there?—A. No stockyard.

Q. There is no stockyard at Hull?—A. No.

Q. So the truck hogs there cost 44 cents a 100 less than the direct shipment hogs?—A. Yes, in September.

December, 1933, direct shipments, $8.95; truckers, $8.55. March, 1934, direct shipments, $12.43; truckers, $12.05.

The percentage of total purchases, September, 1933, direct shipments, 71·23; truckers, 28·77. December, 1933, direct shipments, 74·16; truckers, 25·84. March, 1934, direct shipments, 72·34; truckers, 27·66.

By Mr. Factor:

Q. How do you account for the purchase of a large percentage of direct shipments, and yet the price paid for direct shipments is more than the price paid for truckers?—A. The inference would be they could not get sufficient from truckers, I would say.

By the Chairman:

Q. Would this be western stock?—A. The direct shipments, yes—not necessarily but I think probably a large proportion of them. A good portion of them would be from the Ontario district.

By Mr. Sommerville:

Q. Will you continue?—A. Peterborough, September, 1933, direct shipments, $9.78; truckers, $9.31.

Q. That is 47 cents a 100 less for truckers than for direct shipments?—A. Yes. December, 1933, $9.02, direct shipments; truckers, $8.69.

Q. That is 43 cents less?—A. 33 cents.

Q. 33 cents less, yes?—A. March, 1934, direct shipments, $12.72; truckers, $11.87.

Q. That is a difference of 85 cents a 100 less for truckers than for direct shipments, in March, 1934?—A. Yes. Percentage of total purchases, September, 1933, 63·34, direct shipments; truckers, 36·66. December, 1933, direct shipments, 56·68; truckers, 43·32. March, 1934, direct shipments, 64·67; truckers, 35·33.

The prices paid for hogs are stated to be based on the market price for the bacon grade with the following differentials on or off bacon grade:—

Select—Premium of $1 per head above bacon.

Butcher—Discount of $1 per head below the bacon.

Light—Discount of $1 per head below the bacon.
Heavy—Discount of $1.50 per head below the bacon.
Extra heavy—Discount of $1 to $1.50 per cwt. below the bacon.
Sow—Discount of $2.50 per cwt. below the bacon.
Stag—Discount varies with the condition of the hog below the bacon.

Our examination of the purchase invoices for live stock showed that these differentials were being applied.

From the record maintained by the company it is not possible to determine whether the company gains an additional profit through the operation of the differentials before mentioned. After the hogs are dressed and cut they lose their identity in the plant and the price realized on the individual product cannot be determined. Officials of the company have stated to us that no bonuses or commissions are paid to truck operators delivering hogs or to country agents shipping hogs.

The average dressed cost of cattle, calves, sheep and lambs classified as to source are not presented as these costs are not comparable due to the purchases of cattle through the stockyards being generally of a higher grade than purchases from other sources. We submit below a tabulation showing the percentage which the number of head of each class of purchases bears to the total purchases for the Toronto plant for a week in each of September and December, 1933, and March, 1934.

	Percentage of Total Purchases		
	Direct shipments per cent	Stockyards or markets per cent	Truckers per cent
Cattle:			
September, 1933	21	65	14
December, 1933	30	55	15
March, 1934	18	63	19
Calves:			
September, 1933	11	61	28
December, 1933	22	52	26
March, 1934	39	45	16
Sheep:			
September, 1933	5	78	17
December, 1933	2	54	44
March, 1934	10	59	31
Lambs:			
September, 1933	13	42	45
December, 1933	8	68	24
March, 1934	9	89	2

(c) To determine the hourly rates of wages paid by the company, and to prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In Schedule "1" we submit information showing the number and percentage of the company's employees at the Toronto, Hull and Peterborough plants engaged at the various hourly and weekly rates for one week during the month of March, 1934.

The average hourly rates paid to all employees at the Toronto plants, excluding foremen, truck drivers and others who are paid on a weekly basis, for the weeks ended March 22, 1934, and October 12, 1933, were 39¾ cents and 35¾ cents respectively.

By Mr. Heaps:

Q. May I interrupt? Does that include both males and females?—A. No—I didn't get your question.

Q. Does that average you have just given us include both males and females?—A. It includes males and females, yes.

Q. It was not worked on a piece-work basis?—A. Well, we will come to that later on.

Less than one per cent of the company's employees are on piece work or under any bonus system, and we are informed that no employee is required to "stand by" in his own time.

We are unable to determine from the pay-roll records whether or not employees "stand by" in their own time as the hours on which employees are paid are obtained from the foreman's time books and the time clock records are only used for comparison with the time books. Furthermore, we are informed that employees are permitted to "punch" the time clocks as soon as they enter the plant, which may be previous to the time when operations actually commence. However, in the case of killing floor gangs, the employees are not paid for delays in the commencement of killing operations where the company considers itself blameless for such delays. An instance of such delays, given to us by an employee of the company, is where rail shipments of livestock arrives late through weather conditions or the fault of the railroad companies.

By Mr. Sommerville:

Q. That is to say, in the killing room, the men stand by until the cattle are there for killing, don't they?—A. Yes.

Q. And if there is delay in delivery either from the stockyards or from the railroad and the cattle are not there to kill, the men are paid; they are standing by and they are paid from the time they commence operations?—A. If the company considers that it is their responsibility, they are paid. If it is their own, they are not paid.

By Mr. Heaps:

Q. Who determines that?—A. Well, I take it that the officials of the company do.

By Mr. Sommerville:

Q. The foreman, I suppose?—A. I assume so, or the timekeeper.

By Mr. Heaps:

Q. There is no well-defined rule as to who is to blame for any hold-up in the work?—A. I just didn't get that.

Q. There are no well defined rules in that respect?—A. That is the rule, as we have stated it.

Q. The employees themselves do not determine as to who is responsible for the delay?—A. Well, I assume the determination of that would rest with the officials of the company.

Q. And the employees would have no say in the matter at all?—A. Oh, I would not say that, no.

By the Chairman:

Q. Mr. Shepherd, I am now looking at your consolidated statement of hourly and weekly rates of wages paid. You have it there. I notice that the Hull plant stands out in a rather singular way for low rates of pay for a larger number than in any of the other plants that are set forth here. May I ask this question: Am I correct in saying that there is 25·60 per cent of the employees in the Hull plant that get less than 19 cents an hour; that is 19 cents down to 15 cents?—A. Yes, 25·60.

Q. I want to make that clear. That is correct?—A. Yes.

Q. And the first item of 17·60 per cent get 15 cents?—A. 15 cents, yes.

By Mr. Heaps:

Q. Are those males or females? Could we have any idea of that?—A. We are looking for that.

Q. Could we have any idea as to what work these people perform at those rates?—A. We can get that.

By the Chairman:

Q. A 50-hour week, is it?—A. A 48-hour week.

By Mr. Sommerville:

Q. In the Hull plant?—A. Does it say that?

Q. Well, I don't know. It is 48 hours at Toronto.

Mr. FACTOR: It would have been interesting to have divided the employees.

Mr. SOMMERVILLE: You say, "The basis of employment is a 48-hour week, and an examination of the pay rolls at the Hull and Peterborough plants discloses that the rates in force during the year ended March 29, 1934, were substantially the same as those set forth in Schedule "1".

By the Chairman:

Q. You are not sure whether it is a 50-hour or a 48-hour week?—A. My impression is that it is 48.

The CHAIRMAN: Well, a 48-hour week at 15 cents an hour works out at $7.20 a week. In other words, there would be 17·60 per cent of the employees working on a weekly basis of $7.20.

Mr. FACTOR: If they worked a full week.

The CHAIRMAN: Yes, if they worked a full week.

The WITNESS: Yes, that is so.

By the Chairman:

Q. That is correct, is it not?—A. Might I have that again?

Q. Yes. I say that taking your first line in this statement for Hull, the percentage of the total at 15 cents an hour—being 17·60 of the employees—means that 17·60 per cent of the employees of that plant are working for $7.20 a week, providing they get a full week's work?—A. That is so.

Q. That is so?—A. On a 48-hour week.

Q. Yes, on a 48-hour week, $7.20 a week. If it is a 50-hour week, it is $7.50?—A. Yes.

Q. The question I want to base on that is: Have you any record there to indicate what proportion of that percentage is female workers?—A. We have got the actual pay-roll here for Hull.

Q. Would you give the reporter at this point the list of those who are working at say 19 cents and under, being 25·60 per cent of the employees? It will be the first four in that list, the first four categories?—A. We will have that prepared.

By Mr. Sommerville:

Q. I think you could read that off?—A. It would be rather difficult. It is all spread over the departments.

Q. But you could pick out in each department the number of persons.

By the Chairman:

Q. Could you give us a list to be put into the record?—A. We can prepare a list.

The CHAIRMAN: I wish you would.

Mr. HEAPS: I think in that statement you should give us the actual earnings of these people.

Mr. SOMMERVILLE: That is what he is going to do, give the actual earnings for a week of those employees at this rate. That is what you will do?

The WITNESS: Yes.

The CHAIRMAN: As well as the rate. That takes in the first four categories. That includes 25·60 per cent of the 125 employees—Would that be, or would it be of 100?

The WITNESS: The total applies to 125.

The CHAIRMAN: 25 per cent—that would be about 30-odd employees.

Mr. KENNEDY (*Winnipeg*): The actual names will be read into the record?

The CHAIRMAN: Yes.

Mr. HEAPS: Will you put the names in?

Mr. SOMMERVILLE: Perhaps not the names.

The CHAIRMAN: Not the names, but give us a list, call them Nos. 1, 2, 3 and 4.

The WITNESS: And leaving the names out?

The CHAIRMAN: And you can give us the names privately.

Mr. KENNEDY (*Winnipeg*): That will indicate the actual time worked, in addition?

The CHAIRMAN: Yes.

Mr. KENNEDY (*Winnipeg*): Will there be any special week?

The CHAIRMAN: It is a typical week.

Mr. HEAPS: Is there any explanation as to why the rate is so much lower than in the other places?

The CHAIRMAN: I suppose they get them easier. Go on, Mr. Shepherd.

The WITNESS: During the course of our examination at the Hull plant we were informed that if killing floor operations were discontinued during the morning, certain employees might be released and instructed to return during the afternoon when operations would be commenced again. For example, an employee might work from 8 a.m. to 11 a.m. and from 3 p.m. to 6 p.m. and only receive payment for the six hours actually worked on the killing floor.

By Mr. Sommerville:

Q. That is, these killers are employed and paid only for the hours actually worked in each day?—A. Yes, actually worked.

By the Chairman:

Q. Was that a regular practice?—A. I believe so, yes.

The CHAIRMAN: It is pretty tough on them.

The WITNESS: By that, I do not mean daily, but it happens very frequently.

The CHAIRMAN: Quite a common practice, you would say.

By Mr. Sommerville:

Q. Perhaps their wage roll would indicate that?—A. Yes, I think that probably could be determined.

By the Chairman:

Q. Could you pick out a few typical cases, for instance, and just show the number of hours they worked?—A. We are giving the actual earnings of these people during these weeks. That will show it.

Q. That will be all right. Will you go ahead?—A. The basis of employment is a 48-hour week, and an examination of the pay-rolls at the Hull and Peterborough plants discloses that the rates in force during the year ended March 29, 1934, were substantially the same as those set forth in Schedule "1". The rates of pay at the Toronto plant were increased during the week ended October 19, 1933, which increase, taken on the pay-roll as a whole, represented approximately 10 per cent of the rates paid prior to that date.

By Mr. Sommerville:

Q. That is, there had been a reduction of the rates in 1931?—A. Yes.

Q. And then that was restored in October, 1933?—A. Yes.

By Mr. Heaps:

Q. Are you through with the wages there?—A. Yes.

Q. You have not told us whether those persons you referred to are working on a piece work basis or an hourly basis?—A. There is practically no piece work.

Mr. Sommerville: He said less than 1 per cent of these employees are on piece work.

Mr. Heaps: Less than one per cent on piece work. I didn't get that.

By Mr. Sommerville:

Q. That covers the wages with reference to that point. You had some statement that you were preparing for the committee?—A. Mr. Sommerville, might I say that that reduction was January 1, 1932.

Q. The reduction in wages that we have referred to took place on January 1, 1932?—A. Yes, 1932; not 1931.

Q. And was restored on October 1, 1933?—A. Yes.

Q. Now, returning to the questions asked by Mr. Kennedy (Peace River) yesterday about the paying off of some five million dollars of a bank loan in the year 1931: in connection with that you have prepared a statement by way of answer; now, will you just explain that to the committee?—A. Will you identify that for me; is that difference in balance sheet position between March 27, 1930, and March 26, 1931?

Q. Yes.—A. Mr. Kennedy's question, as I understand it, had to do with the sources from which bank loans of $5,536,527.49 were paid off. For that purpose we have prepared the following tabulation.

CANADA PACKERS, LIMITED

Difference in Balance Sheet Position Between March 27, 1930 and March 26, 1931

Assets converted into cash during year		$ 6,109,130 45
Net Profits for year	$ 640,463 59	
Less paid out in dividends	435,394 75	405,068 84
Increase in Depreciation Reserve, retained in business		766,950 17
Increase in Stated Value of Common Shares, etc		4,896 36
Total		$ 7,286,045 82
Applied as follows:—		
Assets Acquired	$ 745,850 08	
Less Reserves thereon acquired	59,217 40	
	$ 686,632 68	
Liabilities Paid Off—		
Bank Loans	$ 5,536,527 49	
Other Liabilities	1,062,885 65	
		$ 7,286,045 82

So that the bank loans were repaid mainly through the conversion of assets into cash.

By Mr. Kennedy (Peace River):

Q. Due to current statement, rather than through drop in inventory value?—A. Not necessarily; in other words, the amount of the inventory could be carried at the end of the year for considerably less money than it could be carried for at the beginning of the year.

Q. The annual statement I have here says: "This phenomenal reduction was due chiefly to decline in prices of products"—indicated by the following table of comparisons—that might be worth noting at this point. The farmer took the loss of five or six million dollars, whatever it was; the packers did not take it, the bank did not take it.

Mr. SOMMERVILLE: What Mr. Kennedy (Peace River) is referring to is a statement shown in the fourth annual report and balance sheet of Canada Packers Limited as at March 26, 1931, in which the President is reporting that during the year just closed they have paid off to the bank some $5,536,527.49; and then the statement in the balance sheet in the annual report says:

"This phenomenal reduction was due chiefly to decline in prices of Products. This decline is indicated by the following table of comparisons:—

—	Prices		Decline
	March 1930	March 1931	
	cts.	cts.	%
Choice Steers, Toronto Market	11½	7½	35
Select Bacon Hogs, Toronto Market	14	8¾	37
Native Steer Hides, Toronto Market	13½	9½	30
Tallow, Edible, Toronto Market	7¾	5	35
New Laid Eggs, Toronto Market	30	22	27

Because of these lower prices, the Working Capital of the Company is able to pay for almost fifty per cent more product than a year ago, and correspondingly less sums are required from the Company's Bankers to supplement Working Capital."

Mr. KENNEDY (*Peace River*): Yes, that is the statement to which I refer.

By Mr. Kennedy (Winnipeg):

Q. Just before you go on from there; surely it does not follow from that that it would be correct to state that it was the farmers who paid for these loans to the bank?—A. No, I would not draw any such inference as that from it.

Q. If it is so, let us have it; let us get the thing clear.—A. No.

Q. I gathered from the statement that that was the inference.—A. No, I do not think that that is a correct inference.

Mr. KENNEDY (*Peace River*): I don't accept that, it is as plain as the nose on your face.

Mr. KENNEDY (*Winnipeg*): If it is, let us have it.

The WITNESS: What actually happened in regard to inventory was that on March 31, 1930, it was $10,188,568.34, and on March 26, 1931, inventory was $5,912,970.05; a reduction of $4,275,598.29. But that reduction is a reduction covering the whole year. Inventory is turned over on an average about ten times a year, so that with each turnover, it required a little less money to finance the same volume of product which at the end of the year released $4,275,000 of cash.

Q. Out of working capital?—A. Yes.

By Mr. Kennedy (Winnipeg):

Q. And that was used to pay off bank loans?—A. Yes, and for a reduction in accounts receivable of $1,231,000.

By Mr. Sommerville:

Q. So that at the end of the year, on the basis of the report, Canada Packers were able to handle 50 per cent more products for the same amount of money?—A. Less than 50 per cent, about 40 per cent.

By Mr. Kennedy (Winnipeg):

Q. And because of that condition there was a surplus of working capital in the business which could be used for the purpose of paying off bank loans? —A. To pay off bank loans which probably were taken in the main for the purpose of carrying that inventory.

By the Chairman:

Q. I think, however, in fairness to Mr. Kennedy, I would like to express one point in which I am in agreement with him: I will put the question to you this way, had there not been this sharp decline in the price of live stock, there would not have been a release of a portion of this working capital?—A. No, sir.

Q. That is true, is it not? That is the point Mr. Kennedy wishes to make. It is not that it was taken out of the farmers directly, but because of the decline in the price of live stock or in the amount paid to the farmer for his live stock it required that much less working capital?—A. In other words, had the price remained stable, with the same volume of product carried, they would not have had this $4,275,000 released.

By Mr. Sommerville:

Q. They would still have been owing the bank that amount of money at the end of the year?—A. Yes.

Mr. Kennedy (*Peace River*): And the farmer would have got that much more for his live stock.

By Mr. Sommerville:

Q. The farmer would have got that much more for his live stock, that is the point Mr. Kennedy makes. Now, there is a further point I think Mr. Kennedy was discussing yesterday relative to this and that was—could you throw any light upon it—that was the point that while the price of live stock declined rapidly, the price of the finished product declined slowly, and the price of the finished product lagged far behind that of the raw product and provided an extra amount of money out of inventory in the interests of Canada Packers or all of the packing companies?—A. No, I do not think there are any figures that would show that.

Q. To be able to show that you will have to have a comparative statement showing the prices from day to day of the finished product, as against the prices paid from day to day for the live stock product?—A. Yes.

Q. Now, there was another phase of that question that was raised yesterday, that was the question of reserves?—A. Which one do you want to take first? There are two ways of looking at it, one is the reserve at the end of the period, and the other is the situation during the period.

Q. If you will take the situation during the period that will lead up to the situation at the end of the period, that is the first page of your statements? —A. We have prepared a statement headed:—

CANADA PACKERS, LIMITED

ANALYSIS OF GENERAL RESERVE FOR THE PERIOD FROM THE INCEPTION OF THE COMPANY, AUGUST 15, 1927, TO MARCH 29, 1934

	Sundry Reserves	General Reserve	Total
	$ cts.	$ cts.	$ cts.
Year ended March 27, 1929:—			
Inventory written up from lower of Cost or Market to Cost (Book entry)	....	586,268 95	586,268 95
Set aside out of Profit	52,982 64	93,678 42	146,661 06
Balance as at March 27, 1929	52,982 64	679,947 37	732,930 01
Year ended March 29, 1930—			
Transfer to Profit	18,937 51		
Set aside out of Profits	....	100,000 00	81,062 39
Balance as at March 27, 1930	34,045 13	779,947 37	813,992 50
Year ended March 26, 1931—			
Set aside out of Profit	33,284 63	60,510 34	93,794 97
Balance as at March 26, 1931	67,329 76	840,457 71	907,787 47
Year ended March 31, 1932—			
Transfer to Profits	11,914 99	....	11,914 99
Balance as at March 31, 1932	55,414 77	840,457 71	895,872 48
Year ended March 30, 1933—			
Transfer to Profits	10,000 00	615,000 00	625,000 00
Balance as at March 30, 1933	45,414 77	225,457 71	270,872 48
Year ended March 29, 1934—			
Transfer to Profits	....	225,457 71	225,457 71
Balance as at March 29, 1934	45,414 77	....	45,414 77

By Mr. Kennedy (Winnipeg):

Q. Mr. Shepherd, before you go on from there: referring to the first item on that page there is an expression used—probably I should know the term—the expression is "lower of cost or market to cost"; would you just explain that in full? A. "Lower of cost or market to cost": it just depends on whether the inventory at cost is lower than the inventory at market; in this case the inventory at lower of cost or market was below cost, so they wrote it up.

By Mr. Sommerville:

Q. That is, the market price of the inventory at that time, was $586,268.95 less than the actual cost; that is, they raised the inventory to cost?—A. Yes, and set up a corresponding reserve; in the balance sheet it really had no effect because reserve of $586,000 was deducted from the total inventory figure.

By the Chairman:

Q. In that item of $615,000, and the $225,000, that is the two last items transferred from reserve into income account, would that be taxable under the law?—A. Oh yes, the reserve is. It had already been taxed in the period in which the profit was earned.

Q. If you lowered your inventory you would also lower your income; how would they tax a vanishing income?—A. It would just transfer the income to the next year. When the reserve was originally set up they took that off and it would go into the taxation for that year.

By Mr. Sommerville:

Q. As I understand it, when originally set up it was set up by applying it against inventory on the one hand, and adding to bills payable on the other?—A. No, not that. It is shown as a reserve and used in that way; that is why we put in book entry, it has no effect on the real situation.

Q. Yes, all right. That is an analysis of the general reserve for the whole period. Now then we come to page 3 of your report?—A. This statement shows:

CANADA PACKERS, LIMITED

SUMMARY OF RESERVES APPLIED ON BALANCE SHEET AS AT MARCH 29, 1934

Reserves deducted from Inventories:		
Estimate of amount represented by ½c. per lb. deducted from certain products of the Inventories at the main plants		$ 184,823 48
Reserve of Chicago plant as shown under Sundry Reserves in the attached summary		45,414 77
Total Reserves deducted from Inventories		$ 230,238 25
Reserves deducted from Investments in Government Bonds:		
Profits arising from purchase and sale of Government Bonds		$ 26,619 91
Reserves deducted from sundry Investments:		
Profit arising from sale of investment in shares of Canadian Gas & Equipment Co., Ltd.		164,496 31
Reserves deducted from Investments in Subsidiary Companies:		
Profit on purchases by Canada Packers Ltd. of the bonds of its subsidiaries	$99,598 70	
Reserve acquired through purchase of stock of subsidiary companies	86,345 81	
		185,944 51
Total		$ 607,298 98
In addition to the above reserves the Company owns 7,900 shares of Dominion Stores Ltd. and 6,822½ shares of Stop & Shop Ltd., which are carried on the books at a combined market value of	$102,492 05	
Dominion Stores Ltd.—Market value, May 29th, 1934, $20.50 per share. Total Market Value		$ 161,950 00
Stop & Shop Ltd.—Market value, May 29th, 1934, $7.00 per share. Total Market Value		47,757 50
Total Market Value, May 29th, 1934		$ 209,707 50
Total Book Value " "		102,492 05
Excess of Market over Book Value		$ 107,215 45

By the Chairman:

Q. Now, in regard to the Dominion Stores and the Stop and Shop: what proportion of the capital of Dominion Stores does 7,900 shares represent—have you any information on that?—A. It is roughly about 10 per cent, I am speaking just from memory.

Q. And the Stop and Shop?—A. I do not know the figures, approximately 15 per cent.

By Mr. Heaps:

Q. Does the book value represent the purchase price?—A. No, we gave you that yesterday in the statements; the original cost for Dominion Stores was $198,214.99, and Stop and Shop $378,759.45.

By Mr. Sommerville:

Q. We now have this list of employees which will be entered in the record. This indicates some of the information you are asking for, Mr. Heaps.

FEMALE

CANADA PACKERS LIMITED

HULL PLANTS

Employees paid at the rate of 19 cents per hour and less.
For the week ended March 21, 1934.

Department	—	Total hours	Rate	Total wages $ cts.
Bacon slicing	2	52¼	18	9 41
" "	3	53	15	7 95
" "	4	54	17	9 18
" "	5	53	15	7 95
Lard	7	21¼	17	3 61
"	8	34½	15	5 18
"	9	31	15	4 65
"	10	15¾	15	2 36
Sausage	21	55	15	8 25
"	22	54¼	15	8 14
"	23	51½	15	7 73
"	24	50½	15	7 58
Sausage shipping	25	56½	17	9 61
" "	26	53¾	15	8 06
Pork trimmers	27	37¼	15	5 59
" "	28	29½	17	5 02
" "	29	29½	15	4 43
" "	30	37¼	15	5 59
" "	31	44	15	6 60

Total Female—19.

BOYS

CANADA PACKERS LIMITED

HULL PLANT

Employees paid at the rate of 19 cents per hour and less.
For the week ended March 21, 1934.

Departments	—	Total hours	Rate	Total wages $ cts.
Freezer storage	1	31¾	15	4 76
Smoke house	6	43¼	15	6 49
Beef kill	11	52½	17	8 93
"	12	43½	19	8 27
"	13	43½	15	6 53
Casings	14	55¾	19	12 31
"	15	14¼	15	2 14
Hog heads	16	34¾	18	6 26
Shipping	17	65	15	9 75
"	18	57½	15	8 63
"	19	54	15	8 10
Sausage	20	51½	19	9 79
Extra help	32	56½	15	8 48

Total Boys—13.

By the Chairman:

Q. Before we leave that: do I understand that in the Hull plant there is no stand-by other than what you mentioned in the killing?—A. Yes, sir.

Q. How about the Toronto plant?—A. Only in those cases that I mentioned, where the delay is due to causes outside of the company's power; those are all we could locate.

Q. That is in the killing plant?—A. Yes.

By Mr. Sommerville:

Q. And the delay in the delivery of the products to the plant?—A. Through spotting cars and so on.

Mr. ILSLEY: The statement last read by Mr. Sommerville, is that a statement of all the female labourers in the Hull plant getting 19 cents an hour or less.

The CHAIRMAN: It shows those getting 19 cents an hour or less.

Mr. ILSLEY: Yes. What is the total number getting 19 cents or less?

Mr. SOMMERVILLE: It was given as 25 per cent.

The WITNESS: 20 females and 12 boys.

Mr. ILSLEY: So there were 20 female employees in the Hull plant getting paid less than the minimum wage according to the Quebec law?—A. I could not say.

Mr. SOMMERVILLE: He does not know what the minimum wage may be for a town the size of Hull in the Province of Quebec.

By Mr. Edwards:

Q. You do not know what the wage is for comparable work in the Toronto work?—A. No, except on the basis of the general average being higher.

Q. It is higher in Toronto?—A. Yes.

By Mr. Sommerville:

Q. In the Toronto plant you have what?—A. 11½ cents higher average over all.

By Mr. Edwards:

Q. Per hour?—A. Per hour.

Q. 11½ cents per hour higher at the Toronto plant for work comparable to that in Hull?—A. No, that is for all work.

By Mr. Sommerville:

Q. That is for all work. That is, the average at Hull for all employees is 28¼ cents, is that right?—A. Yes.

Q. That is, hourly; and at Toronto the average is 39¾ cents?—A. Yes.

Mr. HEAPS: Mr. Sommerville, can you say whether there is a minimum wage law in Quebec that covers packing plants? I don't think there is, myself.

Mr. SOMMERVILLE: I can't say, offhand. I would be surprised if it did not.

Mr. HEAPS: I don't think it covers packing plants.

Mr. SOMMERVILLE: Perhaps not.

The CHAIRMAN: Apparently not.

Mr. EDWARDS: It is not enforced.

By Mr. Sommerville:

Q. Before we leave this, in connection with the question of the dressed cost of the various products you have mentioned at the Canada Packers, I understand the packers pay a certain price to the Union stockyards on cattle and livestock shipped direct, even though they do not go through the Union Stockyards?—A. May I read this?

Q. Yes?—A. The charges paid to the Union Stockyards Limited on livestock are as follows—

Q. While you are at it, you have Swifts also?—A. We have Swifts.

Q. Swifts also pay?—A. Yes.

Q. You might just give us both at the one time?—A. The charges paid to the Union Stockyards on livestock, according to Swift's figures were as follows—

Q. Those are direct shipments that do not go through the yard?—A. Yes, that is so. Hogs, 6 cents per head.

Q. Swifts?—A. Yes. Hogs, 6 cents per head on 40 per cent. Swifts, hogs, 6 cents per head. Packers, 2·40 cents per head.

Q. 2·4?—A. 2·4 cents per head. Sheep and lambs, 5 cents for Swifts and 2 cents for Canada Packers. Calves, 10 cents for Swifts, 4 cents for Canada Packers. Cattle, 25 cents for Swifts and 12½ cents for Canada Packers. The number of head is the number shipped direct to the plant and excludes the livestock purchased through the stockyards. A summary of the amounts in value paid to the stockyards is as follows: this figure now is Canada Packers.—In April, 1933, they paid $1,352.76; May, $1,407.54.

Q. Perhaps you could give us the total for the year?—A. The total for the year is $15,322.66.

Q. For the year ending March——A. March, 1933. For 1934, it is $16,717.88.

Q. The difference between the price paid by Canada Packers and Swifts had better be explained lest it be misunderstood?—A. We are informed that the reason for using only the percentage of the number of heads purchased is that his agreement applied originally to Harris Abattoir Company only; and when the Harris Abattoir, Davies' and Gunns' plants entered into the Canada Packers' merger, it was agreed that only the percentage of the total purchases of either company should be required to be paid upon.

Q. And the percentage is what?—A. 40 per cent, on all except cattle which is 50.

Q. On all but cattle, 40 per cent pay the regular yardage rate?—A. No, 40 per cent—

Q. 40 per cent pay?—A. Of the first figure quoted.

Q. 40 per cent of the 6 cents?—A. Of the 6 cents on hogs.

Q. And 40 per cent of the 5 cents on sheep, and 40 per cent of the 10 cents on calves?—A. Yes.

Q. And 50 per cent of the 25 cents charged on cattle?—A. Yes.

By the Chairman:

Q. Paid by the packers?—A. That is the amount paid by the packers. Swifts pay the highest.

Q. Let me ask you this: These two packing companies pay to the Union Stockyards those fees that you have recited?—A. Yes.

Q. On cattle, hogs, sheep and calves that do not pass through the stockyards at all, but that are delivered direct to their plants?—A. Yes, that is so.

Mr. YOUNG: Why is that?

The CHAIRMAN: Because they own the stockyards, I suppose.

Mr. YOUNG: Why do they pay anything? That is the first question.

The CHAIRMAN: Why don't they put them through the stockyards is the second question.

The WITNESS: We are told that the reason was to bring the stockyards to that particular district, so that they would locate there.

Mr. SOMMERVILLE: The stockyards were there first. They located after the stockyards, so that that could hardly be the situation.

Mr. KENNEDY (*Winnipeg*): Why the difference? Mr. Sommerville, will you cover that?

By Mr. Sommerville:

Q. In the case of Swifts, they had an agreement to pay the full rate on all the stock that came direct?—A. Yes.

Q. And in the case of Canada Packers, when the agreement was made it was made with Harris's?—A. Yes, that is so.

Q. That was before the amalgamation; and Canada Packers and Davies had no such agreement?—A. No.

Q. Therefore when the merger took place the agreement continued in so far as Harris's were concerned?—A. Yes.

Q. And it was put upon the percentage basis?—A. Yes.

Q. So that the total percentage of their direct livestock receipts was indicated as being 40 per cent?—A. That is so.

Q. As applicable to Harris's?—A. Yes.

Q. And therefore they pay 40 per cent of the fee on all they buy rather than the full fee on 40 per cent of what they buy. It works out at the same thing. As I understand it, Swifts and the Canada Packers own the bulk of the stock of the Union Stockyards?—A. I don't know that. I have the holdings of the Canada Packers here.

Q. Well, you have the holdings of both Canada Packers and Swifts?—A. Swifts' holding is in Chicago.

Q. All right, let us leave that. With reference to the profits in 1934 of Canada Packers, looking at their net profits for the year— —A. Exhibit "B" in the report, is it not?

Q. Yes, Exhibit "B" in the report. In that the net profits for the year, before providing for income tax, was shown as $1,881,179.76?—A. That is so, yes.

Q. That is correct, and that was after providing for all these other reserves, depreciation and costs of every kind?—A. Yes.

Q. Leaving only the question of income tax to be provided for?—A. Yes.

Q. Now, this year a large sum is provided, $430,000, for income tax?—A. Yes.

Q. Several times the amount that was provided out of the previous year's profits, because of the necessity or the possibility of having to provide for income tax on the previous year's income?—A. That is so, but not solely. A part of it is the year's provision.

Q. A part of it is this year's provision?—A. Yes.

Q. In addition to the regular disbursements of this year, as compared with the previous year, was there in the year 1934 a provision for a substantial amount being paid in bonuses?—A. Yes, there was.

Q. Do you know what the total amount for the entire number of plants was?—A. No, we have not got that.

Q. For the entire number?—A. No.

Q. But for the Toronto and Montreal plants, what did that amount to?—A. Toronto and Montreal combined is $122,583.05.

Q. Was the amount of bonus distributed among a number of the executives, foremen, buyers and chief salesmen?—A. Salesmen, office staff, superintendents, buyers, branch managers, car route salesmen, storage employees and fertilizer division.

Q. This sum of $120,000 odd was provided for those two plants?—A. Yes.

Q. But the other plants you have not the amount of?—A. No, we have not been furnished with that.

Q. That added to the $1,881,000 odd would represent upwards of $2,000,000 of net profit for last year, before providing for income tax?—A. Yes.

By Mr. Ilsley:

Q. Do I understand the income tax of the previous year was not paid, or that there was some question as to whether it was paid?—A. There have been some amendments in the adjustments which they are making provision of $153,000 for.

By Mr. Sommerville:

Q. The evidence given was that each year they set up a sum of somewhere around $100,000 approximately?—A. A little over that.

Q. Say $125,000; and that is provided against the profits of each year. This year there is provision set up of $430,000. Then were there some contracts for advance advertising charged against the 1934 profits?—A. About $25,000.

Q. That is on an advertising program of some $50,000?—A. That is so.

Q. That had not been used at the 31st of March, 1934; $25,000 represented advertising still to be used, but it was charged against the profits or operating costs of 1934?—A. That is so, the year ended March 29, 1934.

Q. Then should there not be added to these profits some portion of that depreciation that has been referred to? The total depreciation deducted last year was, I think you said, something like $753,000?—A. Approximately.

Q. And on the basis of last year's depreciation you intimate that the depreciable assets would be all wiped out in 6¼ years?—A. 6¾ years.

Q. Then to the profits of last year should there not be added some amount of that depreciation?—A. I think probably, yes.

Q. Yes, the amount of which you are not able to definitely ascertain?—A. No, that is so.

Q. Then should there not be added back to these profits that deduction from inventory of the $45,000 that was to be found in the Chicago account?—A. It could be added back, yes.

Q. In that event, the net profits of last year would substantially exceed $2,000,000?—A. Yes, they would. That is, of course, before income tax.

Q. The figures which you have used in your calculations have been the company's own figures of net after providing for income tax, of $1,440,000?—A. That is so, yes.

Q. You were going to present the disposition of the net income over the period, a consolidated statement of the income?—A. Yes, I would like to point out that this statement has been typed from our statement, and I have not got my own statement back again, so I am just assuming that it is correctly transcribed.

CANADA PACKERS LIMITED

DISPOSITION OF NET INCOME BEFORE PROVISION FOR DEPRECIATION, AUGUST 15TH, 1927 TO MARCH 29TH. 934

Surplus as at March 29th, 1934		$ 4,654,181
Add:		
Dividends paid on Preferred Stock	$ 2,896,316 50	
Less adjustments applicable to Prior Years	185,565 54	2,710,750 96
Net Income for Period		7,365,332 61
Add:		
Credits to Depreciation Reserves (Net)	$ 5,042,881 83	
Decrease in Surplus on Appraisals	455,560 73	4,587,321 10
Extraneous Profits not credited to Profit Sur. on (Net)		360,348 30
Net Income before provision for depreciation		$ 12,313,002 01
Disposition of Net Income before provision for Depreciation.		
Retained in business as:		
Working Capital	$ 6,020,997 89	
Fixed Assets	380,883 98	
Cash in hands of Sinking Fund Trustees	49,983 20	
Less	6,451,865 07	
Reduction in sundry assets	694,135 41	
		5,757,729 66
Payments for:		
Dividends	2,896,316 50	
Redemption of bonds	3,075,700 00	
Redemption of capital stock	583,255 85	
		6,555,272 35
		12,313,002 01

CANADA PACKERS LIMITED

Make up of extraneous profits (Net).			
Profits applicable to Prior Years		$	185,565 54
Profit on Purchases by Canada Packers Ltd. of the bonds of its subsidiaries	$	99,598 70	
Less Proportion taken over at inception of Company		11,161 75	
		88,436 95	
Acquired through the purchase of Stock of Subsidiary Companies		86,345 81	174,782 76
Extraneous Profits (Net)			360,348 30

Q. All right. This is a statement of what?—A. Showing the disposition of net income before provision for depreciation, covering the period from August 15, 1927, to March 29, 1934. We start with a surplus as at March 29, 1934, as shown on the balance sheet of this date, of $4,654,181.65. We add back dividends paid on preferred stock, after deduction of certain adjustments applicable to prior years, which gives a total of $2,710,750.96. The net income for the period was $7,365,332.61. Add back to that credits to depreciate reserves, $5,042,881.83, less decrease in surplus on appraisals of $455,560.73, which gives you a total add back of $4,587,321.10.

Q. You add back extraneous profits not credited to profit surplus?—A. The surplus, I take it, must be $360,348.31, giving you a total net income before provision for depreciation of $12,313,002.01. Then we show the disposition of this net income before provision for depreciation. Of this total there is retained in the business as working capital $6,020,997.89; fixed assets, $380,883.98; cash in hands of sinking fund trustees, $49,983.20, a total of $6,451,865.07 less reduction in sundry assets of $694,135.41, a total retained in the business of $5,757,729.66. Then we add back payments for dividends, $2,896,316.50; for redemption of bonds, $3,075,700; for redemption of capital stock, $583,255.85, a total of $6,555,272.35, the total of these two items being $12,313,002.01.

Q. That shows you what the total net profits have been in that period, and how they have been disposed of before making provision for depreciation?—A. Yes.

Q. And in making provision for depreciation, whatever depreciation has been allowed has been charged or is to be found included in the amount retained in the business?—A. Yes.

Q. As working capital?—A. Yes.

Q. That is represented in that?—A. Yes, and other assets.

Q. Will you just finish up the entries that you have upon this page; you were showing how the extraneous profits that have been referred to are made up?—A. Yes. Profits applicable to prior years, $185,565.54. That is a surplus adjustment. In other words, we have adopted the company's profits, but these were adjustments that went direct to surplus.

Q. And they are reflected in the previous statement?—A. Yes. Profit on purchases by Canada Packers Limited of the bonds of its subsidiaries, $99,598.70, less proportion taken over at inception of company $11,161.75 gives you a net of $88,436.95. Acquired through the purchase of stock of subsidiary companies, $86,345.81, the total being $174,782.76, a grand total of $360,348.30. That is the amount shown in the statement.

Q. Out of last year's profits there were paid in dividends to the preferred shareholders, I understand, some 17½ per cent?—A. No, that would be out of the surplus.

Q. Out of the surplus account. That represented 17 per cent?—A. $17.50, I think is the figure, but we will look that up.

Q. That represented arrears of dividends of $10.50 and $7, the current dividends for 1934?—A. For the current year. Dividends are now paid up to date.

Q. Dividends are now being paid up to date?—A. Yes.

Q. Will you just explain the system of bookkeeping in the packing plants, both Swifts and Canada Packers, to indicate what difficulty there is in getting the original purchases of live stock and showing the way that is handled through, and the ultimate amount received for that live stock so that the committee may have that explanation fully before them?—A. Do I give it in there?

Q. No, you have not?—A. Just what actually happened is that all these departments are treated as separate entities. There are in Packers in excess of 70 departments, in the Toronto plant, and I take it in each of the other main plants. That means that you have 70 departmental accounts. Those accounts are brought down to a statement of net profit or loss, and that net profit or loss is the item that is transferred into the books of the main branch. The details of how that is arrived at can only be got by taking each of those 70 departments and tabulating the results for 13 operating periods at 6 different plants. I think we gave the figures yesterday of the time that it took us to tabulate the results for one year at Toronto. We have those results here. It took four men four weeks.

Q. To tabulate the purchases?—A. Well, to prepare what might be called an ordinary operating account for the Toronto plant. We have that here.

By Mr. Kennedy (Winnipeg):

Q. While you are on that point, let me interject a question there. Let us refer now to a given plant, say Harris Abattoir Company Limited, of Toronto? —A. I don't think that one would suit your purposes, because I understand it is not in full operation—yes, it is all right.

Q. All right, take the Harris Abattoir Company, Limited, at Toronto; assuming they have some 70 departments, and that each department has a cost basis and works out its net profit or loss and reports it. That is so with the other departments of Harris Abattoir?—A. Exactly.

Q. They report their net standing?—A. Yes.

Q. And the cumulative effect of that net standing is reported to Canada Packers?—A. Yes, to the main branch.

Q. Now, before any given department of Harris Abattoir can report a loss or profit, they surely have to make up a statement themselves, to show how they arrive at that?—A. They have.

Q. All right. Suppose each one of those departments has made up such a statement, would it not be possible, upon request, to obtain from them not necessarily verification, but to obtain from them a statement showing how their net position is arrived at, showing the gross position and the resultant net position?—A. I think they could do it, but it would be very costly.

Q. No, but they must have made up such a statement in order to put in their report as to their net position?—A. No. If you will notice, the report just starts with net income.

Q. I know. That is where it starts here. But before any given department can report its position, surely to heaven they have to make up a statement, and show the whole picture, to arrive at a net result?—A. The department has it, but the management do not consolidate. Some four years ago they used to do it, but they have discontinued it.

Q. If a given department has that, can't it submit that?—A. It can, yes, but it is a matter of tabulating 70 departments. In order to get a year you have to tabulate 70 departments for 13 operating periods, with perhaps 50 items each, and do the same thing for six separate plants, and then consolidate it.

Q. I am not talking about auditing, I am speaking about before a given department can say, "Our net position is so and so," they themselves must have prepared a statement showing how that net position is arrived at?—A. Yes, that is so.

Q. That statement will show their gross position and the resultant net position, would it not?—A. Yes.

Q. Then having done that, surely those statements are available in each one of those separate departments and could be supplied upon request?—A. They could, yes. But I have just given you the time it took us to effect it in one plant for a year.

Q. But if they have them already, surely they could be got. It might take them half an hour?—A. Do you mean that the consolidation is available in all departments?

Q. No, I don't mean that. In the individual 70 departments, those statements must be available?—A. Yes, they are.

Q. If those are available, and were submitted, would they not throw a lot of light upon the matter?—A. They might, but the time required to get that information is so tremendous.

By Mr. Sommerville:

Q. Do I understand, Mr. Shepherd, that while there are these records in each department, these must be consolidated before you can get a picture of operations?—A. Exactly.

Q. And in order to consolidate those in the one plant for one year you required four men for four weeks?—A. Yes.

Q. To get a picture in one plant, and for the purposes of certain information for this committee?—A. Yes.

Q. I think you have estimated what the cost would be to the packers to get that information consolidated in the various plants?—A. Well, we thought roughly it might be in excess of $25,000 a year.

Q. And at the time of the merger of the different independent plants they had consolidated statements?—A. I do not think all of them, but I am informed that some of them did. That was discontinued.

Q. And now each department keeps its own records?—A. Yes.

Q. Each department just sends in the net position?—A. Yes.

Q. You could get the full consolidated position for all the plants by the expenditure of time and money in consolidating these various departments?—A. Yes, but I do not know how accurate they would be because you would find it rather difficult to eliminate inter-departmental transfer and sales.

Q. All these departments deal with each other?—A. Yes.

Q. And these inter-departmental transactions would complicate the situation in the consolidation?—A. Yes.

Q. You found that so?—A. Yes, it could be got, no question; it is a matter of time and money.

Q. Quite so, I do not want the impression to prevail that there is anything of an abuse of packing house methods under the present system, but it is a system that is in force in the leading packing house plants of this continent?—A. That is so.

Q. And is a well recognized system for the big packing plants?—A. Yes.

Q. We have here Burns in which the information is available with respect to that plant in another form?—A. Yes.

Q. Where you have your purchases and your sales, and you have your costs throughout; but that does not prevail in Canada Packers or in Swifts?—A. No.

Q. Therefore, you have been obliged to take the situation as it is and build your statement in the time that you have had upon that information?—A. Along the lines on which the company's figures were available.

Q. It would be possible then with the expenditure of time and money to find out how many cattle had been purchased—how many head of live stock—what had been done with them, what had been paid for them, and what had been received for the full product at the end?—A. Yes, it would.

Q. But, as you say, one would have to go through this process you are describing to get that consolidated statement?—A. I think it is a fair statement to say it would mean virtually re-writing the records.

By Mr. Kennedy (Winnipeg):

Q. And the effect of such a system is to render it exceedingly difficult for us to get the gross position with respect to any of these companies?—A. That is so, but I think the answer to that is perhaps that such information is not necessary for packing house management; it is not what they are interested in.

Q. Yes, this committee is interested more in their net position than it is in their gross position.

By Mr. Edwards:

Q. Is it not to get away from this heavy expense that they have that system?—A. That is one factor.

Q. It is for that reason that these test runs are made, and these test runs are satisfactory to the operators of the plant; is not that the idea?—A. I think so.

By Mr. Sommerville:

Q. And is not another reason the fact that by the present method you can get a four-week return on your operation, or a quarterly return very rapidly; whereas, under the old system, you had to close your books and wait until you got your statement off before you knew your position?—A. When you got the information it was too late to use it.

Q. You would get it too late to use it, market conditions might change before you could make use of it; but under the present system of having a four-week period, there is a check-up every four weeks on the various departments on the net position?—A. Every week in fact.

Q. And then, a four-week accounting period?—A. Well, it is 13 to a year.

By Mr. Kennedy (Peace River):

Q. Just what does a test-run mean, I do not think it has been explained? —A. It is an estimate.

By Mr. Sommerville:

Q. Of which we have some example?—A. It is right in the packer's report here; to secure approximate profit and loss margins for their own information they should occasionally have test runs made.

Q. Do they take a bunch of stock through and check the time?—A. No, it is based on an estimate in relation to 100 pounds of product.

Q. I think that is in the memorandum which Mr. Shepherd has already referred to, and which was read yesterday.

Mr. KENNEDY (*Peace River*): As long as it is in the evidence we can see how it works out.

Mr. SOMMERVILLE: Then, of course, the test itself is based upon there being a certain number of hams, bellies, loins and shoulders in a hog in certain proportion; but some of that may be sold as fresh meat, and some of it may be sold as bacon or sausages, therefore the test does not apply all the way across the boards.

Mr. KENNEDY (*Peace River*): No.

By Mr. Sommerville:

Q. Just by way of further explanation of these departmental accounts, where you say each department is kept separate and distinct; one department then, say the beef department, may in its net position show a loss of $5,000—is that a fact, it may show a loss?—A. Yes.

Q. Then that beef goes into the sales department and the sales department may show a net profit of $25,000?—A. Yes.

Q. And that sales department covers the sales not only of the beef and hog products, but sausages, eggs, produce and everything else?—A. Yes.

Q. So that the sales department profits do cover profits from all of the products handled?—A. Yes.

Q. And when a report is made as to the profit on the sales department, that again is a net figure?—A. Yes.

Q. So that in the accounting of that department there may be a loss on the operations of that department—there may be a loss of half a million dollars on sales in the beef department, and again of $600,000 in the sales department, and the net position would be a net $100,000 profit?—A. Yes.

Q. And the sales of this particular company during the last year, I think you said, amounted to something like $54,000,000?—A. $54,000,000.

Q. And over the five-year period amounted to an average of $77,000,000, and these come through its sales department?—A. And other departments, branches and car routes.

Q. Now, can you tell us -take for instance the Hull plant—can you give us the result of the operations in the Hull plant, the profit, for the year 1930—the last year, in which you have these operations?—A. Adopting the company's figures: at the Hull plant in 1934 there was a profit of $9,369.21; in 1933 there was a loss of $27,931.86. But I might explain that these profits are after including the 6 per cent interest which we mentioned before; that is, 6 per cent interest on the capital invested in these plants; and writing that back on an arbitrary basis we show a profit before interest is paid of $39,835.59 for 1934, and for 1933 a loss of $129.67.

Q. I understand the total amount of interest charged to the various departments of the branches during the year was a sum of something like a million and a half?—A. Approximately that.

Q. Which simply means that every department could break just even, make neither a loss nor a gain, and yet there would be a profit to the company of approximately a million and a half?—A. One million four hundred and ninety-six dollars.

By Mr. Kennedy (Peace River):

Q. Six per cent is charged against the inventory, or the stock that is brought in?—A. The assets used in the operation of that department—you mean, what is it charged against.

By Mr. Sommerville:

Q. No, what is the charge?—A. What is it calculated on?

Q. What is it calculated on?—A. On the assets used in the operations of that department.

By the Chairman:

Q. What would the aggregate be, the $18,000,000, or $11,000,000 capital investment?—A. It is calculated on accounts receivable, inventories, and certain arbitrary fixed assets.

By Mr. Sommerville:

Q. A certain arbitrary fixed asset valuation, and that certain arbitrary fixed valuation is based upon the book value of these fixed assets in the various company's books?—A. It is on $15,368,625.37 plus real estate; these are the actual assets taken in, and then real estate $1,353,925.41.

Q. That would be a basis of $15,000,000?—A. Approximately.

Q. If it were a basis of $15,000,000 that would be $900,000?—A. Then you have accounts receivable and inventories in addition.

Q. So that you have fixed assets of $15,000,000?—A. You see the basis is disturbed all the time, so it would not be a fixed amount.

Q. I understand that, you have your 6 per cent interest charged on fixed assets of approximately $15,000,000?—A. Yes.

Q. Plus the interest charge on accounts receivable?—A. And inventories.

Q. And that in last year was $1,496,000, and in previous years a sum approximately the same?

Mr. Ilsley: What accounts receivable are these, amounts receivable by the Hull plant?

Mr. Sommerville: By all plants.

Mr. Ilsley: If, but take a particular plant; what is the Hull plant—on what accounts receivable is the Hull plant charging 6 per cent.

By Mr. Sommerville:

Q. I would just ask. Mr. Ilsley would like to know on what accounts receivable the Hull plant would charge 6 per cent, or would they charge 6 per cent?—A. The amount of money invested in accounts receivable at that date, which would be the amount owing the packers at Hull by the people to whom they supplied goods.

By Mr. Kennedy (Peace River):

Q. You say the 6 per cent is charged, that means it enters into the cost of selling the product?—A. It is charged in calculating their departmental profits or losses, it is an operating expense.

By the Chairman:

Q. That is not a common practice in accountancy, is it, to charge interest charges of that kind unless it is a bonded interest, as an operating cost?—A. Oh, it is done.

Q. I always think it is wrong?—A. It is done now in any industry.

Q. Why should not they charge that interest charge after ascertaining what the operating profit is?—A. I think what they are trying to do is to provide a selling margin there; in other words, if they can realize a flat rate after calculating that interest, then they know they are making so much a year.

Q. Yes, I see.

By Mr. Edwards:

Q. Is it not on the basis that if a customer paid cash and he had to borrow money from the bank he would pay interest for it; the packing company carry him for a month or two months—whatever it may be—and they simply charge him at that rate the same as a bank would?—A. They are not charging the individual, no.

Q. On the amount of money they are using in carrying these men?—A. It is just the department that is charged that, it is not charged to the customer.

Q. It is passed on?—A. No.

Q. It is a fair charge, isn't it?—A. Really, it is an accounting procedure, that is all.

By the Chairman:

Q. But we have not been able to get the information with respect to yesterday; namely, the amount of livestock purchased by the company as a whole and the amount paid for that livestock, and then the total amount received out of meat products?

Mr. Sommerville: You could probably give that for the Toronto plant?

The Witness: Yes, we have it for the Toronto plant.

By Mr. Sommerville:

Q. Well, let us have it for that one plant?—A. Sales and transfers to outside branches. This is for the year ended March 30, 1933, the Toronto plant only, $20,308,982.57; cost of livestock and other products, $15,826,703.22—that represents 78 per cent of the sales. Materials $172,411.52, packages $658,808.04—which represents $3\frac{1}{4}$ per cent of the total of $16,657,922.78. The excess of sales over the cost of livestock materials and packages being $3,651,059.79, or 18 per cent. And then, expenses: we have the detail down here, do you want expenses?

The CHAIRMAN: You had better give us them.

The WITNESS: Supplies purchased $24,042.04, supplies transferred $5,865.04, labour $827,760.69, Workmen's Compensation Insurance $5,791.17, interest on Inventory $94,536.46, insurance on inventory $1,410.68, power $12,578.53, engine room $177,906.52, refrigeration $106,433.50, repairs $82,303.37, stock pens $60,767.06, stables $1,057.15, storage $62,191.01, laundry $12,597.06, plant overhead $218,107.96.

By the Chairman:

Q. What is that made up of?—A. We have not the detailed analysis of it—labour, and I take it depreciation, would be in that. Inventory $1,527.20, water $3,464.26, buying expenses $60,788.62, shipping $139,906.24, telegraph and telephone $4,858.85, advertising $22,868.26, interest on accounts receivable $31,316.05; car routes, salesmen's salaries expenses, etc. $656,557.12, branch house commission $176,605.41, bad debt provision $27,528.20, sundry $8,899.28; fixed charges, depreciation, interest, etc. $479,372.12; travelling $3,577.68, head office, etc. $502,131.17.

Q. What would that be?—A. That would be all the salaries, clerical expenses, management and general administration.

Q. Nearly a million dollars in those two items.

By Mr. Sommerville:

Q. What is the last item?—A. General administration expenses, $502,131.07.

Q. That is, in your fixed charges, depreciation, etc. $479,000, and general administration $502,000?—A. Yes. A total of $3,812,747.30; and the result is a net loss of $161,687.91.

I would like to point out there, the item of labour $827,760.69, is not the only labour; in these other departments—engineering, refrigeration, and so on—there is a good deal of labour in there too.

By Mr. Sommerville:

Q. Now, in this item of $161,000 loss; in showing that is this 6 per cent included in the item?—A. Oh, yes, in respect of accounts receivable and interest on inventory.

Q. What does it amount to?—A. Interest on accounts receivable is $31,316.05, and interest on inventory is $94,536.46.

By the Chairman:

Q. Will you have that statement typed and supply the committee with a copy of it? I would like to examine that with some care.—A. Yes.

By Mr. Sommerville:

Q. That is for the year just closed, 1933-1934?—A. March 30, 1933.

By Mr. Boulanger:

Q. Have you the same information with respect to the Hull plant?—A. No, we have not.

By the Chairman:

Q. Have you it for any other plant beside this one?—A. Only Toronto, sir.

The CHAIRMAN: We will stand adjourned until 3.30 o'clock this afternoon.

The committee adjourned to meet again this day at 3.30 o'clock p.m.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

A. B. SHEPHERD, examination resumed.

By Mr. Sommerville:

Q. Just while we are waiting for the typed copy of that gross profit statement which you read to us from Canada Packers' Toronto plant for last year, may I ask what efforts you made to get a gross profit statement from the Canada Packers for the whole of their operations over this period?—A. Immediately we were appointed I went down with Mr. Merson to see Mr. McLean, and we discussed their accounting records that were available; among other things I asked him if the accounts were prepared in a way which would enable us to obtain the gross profit figures. He told us no. I don't recall his exact words, but in effect he said that those figures would be of no value to them as packers. What they were interested in was the net departmental profit, and consequently they prepared their figures on that basis. We also spoke to the officers of Swifts and they told us substantially the same thing.

Q. In the case of Wilsil's, were those gross profit figures available in the form in which you wanted them when you went to that plant?—A. Not exactly, but we were able to build them up by reason of the fact that the operations were comparatively small.

Q. That is, with the single unit you were able to build up the gross profit figures?—A. Yes.

Q. And you were able to present those gross profit figures for the Wilsil plant?—A. Yes.

Q. And they are presented in the report and memorandum which has been read and which is in evidence?—A. Yes.

Q. And also for the Gainer plant, did you build them up or were they already available?—A. They were not available in the exact form, but we were able to build them up.

Q. You therefore can present, and have presented in the report you have read to the committee, the gross profit figures for Wilsil's and for Gainers over the five-year period?—A. Yes, whatever the period is which we examined.

Q. Then you have built up the gross profit figures on the Toronto plant alone of the Canada Packers for one year?—A. That is so.

Q. And Swifts for one year?—A. That is so.

Q. When you get those gross profit figures from Canada Packers and Swifts, does that not give you the spread between the price paid for the live stock and the price at which it is sold?—A. No.

Q. Why not?—A. Those gross profit figures include all departments in which the company is doing business, and they include in addition to live stock such other things as oils, butter, eggs, poultry and so forth.

Q. Combined figures?—A. Yes.

Q. And therefore it is impossible to segregate or separate all live stock alone from the other?—A. From the gross profits.

Q. From the gross profit figures in this?—A. Yes, except by going back to the individual 60 or 70 departments.

Q. And then building them up into a new set-up?—A. Yes.

Q. Now you have the figures—I think they have just been handed to you—in the typed gross profits statement for 1934 at the Toronto plant?—A. Yes.

Q. For the year ending when?—A. For the year ended March 30, 1933.

Mr. SOMMERVILLE: Give one to the reporter, please, and he will take that into the record now.

CANADA PACKERS LIMITED

TORONTO PACKING PLANT

Profit and Loss Account for the year ended March 30, 1933

Sales (including shipments to Branch Houses other Plants, etc.)		$20,308,982 57
Cost of Livestock, Materials and Packages Livestock and Other Raw Materials	$15,826,703 22	
Materials used for Ingredients	172,411 52	
Packages	658,808 04	
		16,657,922 78
Excess of Sales over Cost of Livestock, Materials and Packages		3,651,059 79
Expenses:		
Supplies—Purchased	$ 24,042 04	
Supplies—Transferred	5,865 04	
Labour	827,760 69	
Workmen's Compensation Insurance	5,791 17	
Insurance—Inventory	1,410 65	
Power	12,578 53	
Engine Room	177,906 52	
Refrigeration	106,433 50	
Repairs	82,303 37	
Stock Pens	60,767 06	
Stables	1,057 15	
Storage	62,190 01	
Laundry	12,597 06	
Plant Overhead	218,107 96	
Cafeteria	1,527 20	
Water	3,464 26	
Buying Expenses	60,788 62	
Shipping	139,906 24	
Telegraph and Telephone	4,858 85	
Advertising	22,868 26	
Car Route—Salesmens Salaries, Expenses, etc	656,557 12	
Branch House Commissions	176,602 41	
Bad Debts Provision	27,528 20	
Sundry	8,899 28	
Fixed charges representing Depreciation, insurance, etc	240,330 40	
Travelling	3,577 68	
Head Office Charges	502,131 17	
Total Expenses		3,447,853 47
Net Profit		203,206 32
*Proportion of Interest charged to Toronto Plant		364,894 23
Net Loss after Interest at 6% on Capital Employed		161,687 91

*In addition to this amount further interest charges in excess of $100,000.00 are included in service and overhead Departments such as refrigeration, plant overhead, etc.

By Mr. Sommerville:

Q. Now, this profit and loss account of the Toronto packing plant for the year ended March 30, 1933, presumably shows a net profit of $203,206.32?—A. Yes, that is so.

Q. And that is after taking out of the statement the interest that has been charged to the Toronto plant?—A. As far as we were able to build it up; but I notice there is an additional $100,000 which could not be taken out.

Q. That is, you had not the necessary figures?—A. We hadn't the information available as to what items to apply them to.

Q. That is to say, in this profit and loss account, in the expense items as prepared on the company's figures, it showed a net loss of $161,687.91?—A. Yes.

Q. But in order to arrive at that loss, or rather in making that statement of loss, there was included in the expenses the sum of $364,894.23 for interest?—A. Plus $100,000.

Q. Plus $100,000 in the service and overhead departments?—A. Which we could not distribute.

Q. Which could not be distributed to each of those departments?—A. Yes.

Q. So that in the total amount there was the sum of $464.894.23 charged for interest?—A. Yes.

Q. And if you take out that interest charge, that shows a profit on operating for that year of what?—A. $300,000—$303,206.32.

Q. $303,206.32?—A. Yes.

Q. Which is turned into a loss if you charge back in this amount of interest?—A. 6 per cent interest.

Q. Are there interest items in some of the other expense items? Is there interest charged in some of the other expense items as well as in the two items to which you have referred?—A. There would be further interest under engine room, refrigeration and repairs, plant overhead, cafeteria, car routes and head office charges.

Q. There would be further interest?—A. Further interest which you can't determine. But this $100,000 is put in as an estimate to take care of that.

Q. The $100,000 is to take care of the items which you have referred to as being interest?—A. Yes, but we can't specifically allocate them.

Q. We will take it that, on this statement, the total amount of interest charged that you can, at the present time, see is the amount of $464,894.23?—A. That is so.

By Mr. Factor:

Q. What is the principle followed in charging interest? Have you not provided a reserve depreciation fund?—A. Well, it is a departmental charge. It is charged to each department and credited to a total amount in the final profit and loss account.

By Mr. Sommerville:

Q. It is an operating charge?—A. In other words, may I put it to you this way: That a department might show, without interest, a profit of $100,000, but by charging 6 per cent interest, you charge your $100,000 against that and the department would show no profit; but there would be a credit to interest in the final profit and loss account of $100,000.

By Mr. Factor:

Q. I understand that, but is it customary in this business to charge 6 per cent interest on the capital employed, as well as on the other items?—A. In this business?

Q. Yes?—A. It is in the larger plants.

By Mr. Sommerville:

Q. And in other businesses?—A. In some other businesses.

Q. In some other businesses it is also the practice, is it not?—A. Yes.

Q. I understand in departmental stores a similar practice is followed?—A. I don't know that that is the case. It is in some manufacturing plants.

Q. In some manufacturing plants it is followed?—A. Yes.

By Mr. Factor:

Q. Is this in addition to any reserve that is set up on the consolidated balance sheet?—A. It really can be called a bookkeeping entry. The object of it is so that the man who is operating a particular department, if he is going to break even on his department, he is charged there 6 per cent on the capital employed in it. That is really the object. But, of course, in the final analysis it is wiped out.

By Mr. Sommerville:

Q. That is shown in the profits of the company for the whole year?—A. Yes.

Q. Eventually it is thrown up in profits?—A. Yes.

Q. Whether it comes out of the operating department or whether it comes out of the interest account?—A. Exactly.

Q. It is shown then?—A. Yes.

Q. And then from that interest account of last year, these total charges run to something like $1,496,000?—A. Yes.

By Mr. Ilsley:

Q. I should think it would be wise to show the relative profit and loss of the various departments in charges of that sort?—A. Yes, it is really a sort of cost accounting procedure, to give each department some proportion of the total capital invested in it.

By Mr. Factor:

Q. So that it is shown in that net figure of $7,000,000 that you gave us a statement for?—A. Yes.

By Mr. Sommerville:

Q. It is fully reflected there?—A. Yes.

By the Chairman:

Q. Before we leave this statement, Mr. Shepherd, I might say that what we, of course, are particularly concerned in is the operating cost, to enable us to determine whether the spread is a reasonable spread. I understand from this statement that taking into consideration the sales of this Toronto packing plant and deducting from that the cost of the live stock, the materials that entered into it, the ingredients and the packages, it left something over $3,500,000, which approximated 18 per cent?—A. Yes, that is so.

Q. Then from that are deducted certain charges, and I want to ask you in regard to four of those charges. Here is an item of plant overhead, $218,000. Could you tell me just roughly—I don't want the items broken down—of what that consists?—A. It is a proportion of the fixed charges and head office charges.

Q. All right. Then we will drop down to the bottom and we find head office charges, $502,000. What is that?—A. This $502,000 is only part of the total head office and administrative expenses.

Q. Quite so, but what does it consist of?—A. It is really composed of a large number of different items—interest and labour. The only way you can get the actual details of that would be to go to the books and make an analysis of them.

Q. Does it not strike you as an extraordinary heavy charge? There is $720,000 for overhead and head office charges. Does that not strike you as an abnormally high amount?—A. It is very hard to express an opinion on that.

Q. Then, let us go a step further. In addition to that $720,000, there is an item of fixed charges, representing depreciation and insurance, of $240,000?—A. That would represent the depreciation applicable to the Toronto plant, plus the insurance.

Q. To which there could be no great objection, I will agree?—A. No.

Q. But what about these branch house commissions, $176,000?—A. Costs of selling beef through branch houses.

By Mr. Sommerville:

Q. That is an allowance to branch houses for commission on the sales of beef by those branch houses?—A. Yes.

Q. And charged to expenses of the Toronto plant?—A. Yes.

By the Chairman:

Q. That, of course, should be a part of the earning of the parent company, of the company itself. I am not objecting to it appearing here, but what I am trying to get at is what is a legitimate deduction from these rather extraordinary charges, in order to indicate what might be estimated as a reasonable return from this plant. For instance, these four items that I have just cited, amounting to $1,137,000 appear to me as exceedingly heavy charges for operations of this kind?—A. There is a large amount of labour in those figures.

Q. Quite so; I imagine clerical work, and so forth?—A. No, actual labour, part of this engine room.

Q. I am not touching the engine room at all. It is another $177,000?—A. Yes.

By Mr. Factor:

Q. What are those figures based on? How are they made up?—A. From their own books.

Q. Then you have the details of them, have you?—A. No, but the actual analysis of these accounts would be in the books of the company. We know where these came from.

Q. When you put down plant overhead at $218,000 odd, how did you arrive at that figure?

By the Chairman:

Q. Is that as it appears in their books? –A. In the departmental trading account. It appears in their books.

Q. It appears there as a charge?—A. Yes.

Q. Of course, unless one has an analysis, they won't get it?—A. You have got to analyze it.

Q. You could bury in that a tremendous number of things that might not be justified. That is the point I am trying to get at. It seems as if we were frightfully handicapped—at least I am, in my own mind, in arriving at a fair analysis of the spread that exists. Here we have a statement compiled from their own records, showing a loss in a department; but I confess very frankly that of this $1,137,000,—and there are other items I could pick out,—close analysis might also disclose perhaps unwarranted charges as against operations. It does not help us much to ascertain what is the spread. That is what worries me?—A. Well, of course, as I stated in the memorandum, that in the final analysis you have to go back to the net income; because you can't tell by taking an individual plant like this just what is included in it.

Q. In other words, about the only way in which we can estimate the extent to which the grower or producer, on the one hand, has had a fair deal, and the consumer on the other hand has been treated right, is to take the total disclosed net income of the company and also to estimate the weight of the reserve they have set up?—A. Yes, and take the percentage on the invested capital, and a percentage on the sales.

By Mr. Sommerville:

Q. That is on the net figure which they have produced from their books?—A. You mean this one?

Q. No, the net figure you have been taking.

By the Chairman:

Q. The one you gave us in your original statement where you showed one point something on sales, an average of 10 per cent?—A. Yes, that is net income.

Mr. SOMMERVILLE: That is net income as disclosed in their books.

By the Chairman:

Q. That was net income after making these heavy allowances for depreciation reserves?—A. Yes, that is so.

The CHAIRMAN: I confess it makes it very difficult.

By Mr. Sommerville:

Q. If these charges of a million dollars on the four items mentioned by the Hon. Mr. Stevens are excessive, then they reduce the profits of the year by the extent to which they are excessive?—A. Yes.

By Mr. Ilsley:

Q. For that plant?—A. For that plant.

By Mr. Sommerville:

Q. And that plant which we are now examining in respect of that $1,000,000 charge, had sales of $20,308,000?—A. Yes.

Q. While other plants of the company had sales of an additional $34,000,000 for last year, making a total of $54,000,000 of sales?—A. 1933 is $45,000,000.

Q. $45,000,000 for 1933?—A. Yes, that is so.

Q. The other plants outside of the Toronto plant had sales of $23,000,000?—A. Yes.

Q. And I presume similar profit and loss accounts for those plants would contain entries of a relatively similar character?—A. Yes.

Q. And relative in amount to those which are referred to in this statement?—A. Yes.

By Mr. Ilsley:

Q. But they would not total too much, would they?—A. There is no evidence that they would be.

Q. Do you know whether that is the case or not? You understand my question, do you? Take plant overhead, $218,000; head office charges, $502,000. If you had corresponding charges in each of the other plants, would the total be greater than the total plant overhead and the total head office charges or not, or do you know?—A. Well, the only way you can answer that question is to say that by comparison of the balance sheet there is nothing of that kind revealed.

By Mr. Sommerville:

Q. You don't know?—A. We know the total depreciation, for instance.

By the Chairman:

Q. What I am trying to get at is to what extent this is a fair reflection. Here is another item. Perhaps you can give us some explanation of this: Car route, salesmen's salaries, expenses, etc., $656,000?—A. That is the selling agency from which the product is retailed.

Q. That is a perfectly proper charge, but here again is where one is confronted with a difficulty when estimating whether an organization is economic in its operations; that is, in arriving at a conclusion, as I said before, of whether or not the producer on the one hand gets a square deal, and the consumer on the other?—A. Yes.

Q. One would have to take that $656,000 and add to it $502,000, which is the head office charges, which is a sort of over-riding charge, being the share of this plant of head office expenses?—A. Yes.

Q. That gives you in those two items alone, taking another view altogether from this other analysis, roughly $1,160,000?—A. Yes.

Q. I do not touch their depreciation, I do not touch plant overhead, and I do not touch branch house commission?—A. Of course, net income in that year was only $600,000.

Q. You mean for the whole company?—A. Yes, from the whole company.

Q. Quite so; but from the fact that that company shows a small net income, it does not necessarily follow that the plant has been economically operated and the public given a square deal, which, of course, is the very essence of our inquiry. I am trying to emphasize or to draw out, if I can, the weight of these figures. Taking the five sets of figures that I have indicated, you have $1,800,000 in that plant which is taken up in head office charges, fixed charges, depreciation, selling charges, branch house commissions and plant overhead, none of it actually operating cost or production?—A. Well, there is selling and administration. Car routes of course would be some.

Q. I am speaking about production costs. I am not saying that the things here should not be charged. Not at all. But I am trying to satisfy my own mind that the $1,800,000 is a fair sort of over-riding charge for these outside and overhead services and charges—A. Of course, the sales are $20,000,000. It only represents 5 per cent.

Mr. SOMMERVILLE: 7 per cent to 8 per cent.

Mr. FACTOR: We are not complaining that they are excessive. I think what the Chairman means, and in my opinion, I think we are unable to arrive at any decision about that.

The WITNESS: That is so.

By Mr. Factor:

Q. Is there nowhere in the books of the company where their head office charges are analysed in detail—A. Oh, you can obtain it, yes.

Q. It means a lot of work?—A. Yes.

By Mr. Young:

Q. Even then, would that be any revelation of efficiency or lack of it?—A. I don't know that you could draw that deduction from it. After all, the net income is the final test.

By Mr. Kennedy (Winnipeg):

Q. May I have your attention for a minute or two, Mr. Shepherd. Referring to the profit and loss account for the Toronto packing plant that I have before me, that is for the year ending March 30, 1933?—A. Yes.

Q. I understood you to say that for that year the Toronto plant showed a loss, is that right?—A. Yes, after charging interest at 6 per cent.

Q. Just let me get this now. In the year ending March 30, 1933, the Toronto plant, according to the statement as supplied by the Toronto plant of the Canada Packers, showed a loss for that year of how much?—A. $161,687.91.

Q. That loss would be carried through into the consolidated balance sheet of Canada Packers, Limited?—A. Consolidated profit and loss account.

Q. Yes, consolidated profit and loss account; it would be carried through?—A. Yes.

Q. We are up against this then, that that is where we started from with the consolidated profit and loss account for Canada Packers. We start with the net returns from each individual plant?—A. Yes.

Q. Of course if those are correct statements by the individual plant, all well and good. But to find out whether or not they are, you see the necessity of getting back and getting the individual statements, which you say can only be obtained with an amount of labour and time that is out of the question. Now, we get one year in the Toronto packing plant, and we come to analyse it, and as Mr. Stevens has pointed out, four items there total over a million dollars. I confess here that it is questionable as to whether or not those are proper charges. As a result of the charge that is charged in the profit and loss account, it reflects a net loss for the year assuming that they are proper charges?—A. That net loss includes 6 per cent interest, of course.

Q. Yes, but those items that Mr. Stevens has drawn attention to are so high that they raise the question whether they are proper charges against loss. Then the next step is: How are those built up? And we are faced with the answer: Well, we have not the details. It is not a matter of blame. It is to get it clear. The next step is: How are these built up, and we have not got the details?—A. No.

Mr. KENNEDY (*Winnipeg*): As I pointed out yesterday, we are just running into a blind alley in every line we take, and we are up against a stone wall in so far as getting at the figures of gross operations of these companies is concerned. There is where we land all the time, and these figures really do not lead us anywhere. We are up against a stone wall.

By the Chairman:

Q. Is there any statement available showing the consolidated profit and loss account and the surplus account, instead of using the consolidated—is there any statement showing how they make up their profit and loss account?—A. No, except the one published by Canada Packers Limited.

Q. Of course, that shows nothing?—A. That is true, but it is a result of that system.

By Mr. Kennedy (Winnipeg):

Q. One other point: you stated that the reason assigned by Mr. McLean for this system of book-keeping was that all they were interested in, so far as the branch plants are concerned, was the net profits; well, supposing those plants were showing a net loss each year, is it not reasonable to suppose that Canada Packers would be interested in delving into these figures and seeing how the losses arose?—A. I expect they would, yes.

Q. And in order to do that all the figures and all the facts will have to be available for them to see where losses arose?—A. But they would not wait for a year, they would have it at the end of the first operating period.

Q. If instead of losses there happened to be a falling off in the profits of the plant for the year, the natural procedure would be to examine the figures?—A. Yes, but they would not wait for a year.

Q. Therefore, it seems to me reasonable to suppose that, where the branch plants are showing a profit or a loss, that the central concern, Canada Packers Limited, would be interested in maintaining at all times an accountancy set-up in their individual plants which would be available to them at all times?—A. It is available, but it is not consolidated.

By Mr. Sommerville:

Q. It is available in 70 different figures, and you have to go into 70 different branches to find out what happens in 70 different departments; is not that the problem?—A. Into the main six plants.

Q. But in each of these plants in these various departments?—A. Yes, exactly.

By Mr. Kennedy (Winnipeg):

Q. And from the actuarial point of view is it suggested that it would take Canada Packers months to find out the situation in any given plant?—A. No, but you see they would not wait for a year, all they would have to do would be to consolidate a four-week period.

Q. Supposing Canada Packers Limited wanted this information from the individual plants instead of this committee, how long do you think it would take them to get that information from the individual plants?—A. I would say a considerable time.

Q. Do you mean days, weeks, or months?—A. It would take weeks, I think.

By Mr. Sommerville:

Q. It took you four weeks with four men to get that information for the one plant?—A. On the largest plant.

By Mr. Kennedy (Winnipeg):

Q. I realize the disadvantage of outside auditors going in there, it is quite different from company auditors. I cannot help but think that Canada Packers Limited, if they wanted that information as badly as we want it, could get it in a very short time?—A. They discontinued keeping it to avoid the cost.

Q. Well, the suggestion on these four items—this is a reasonable thought at least—here are four large items as a result of which is shown a loss on the year's operations for this plant. It might well be that considerable profits are buried in these items?—A. Where are they credited in the balance sheet, that is the question there.

Q. I do not know?—A. We know that.

Q. You know what?—A. We know that there are no concealed credits in the balance sheet; the point is, if they charge in operations some large amounts for services that they are not rendering or goods that they are not receiving, they have got to credit the amount somewhere.

By Mr. Sommerville:

Q. Mr. Kennedy means, for instance, if the charge of $656,000 is an unreasonable charge—if it should only be half—you cannot extract that from the consolidated balance sheet?—A. You mean, if it were actually expended, but unreasonable.

Q. Yes?—A. No, you could not detect it.

Q. In accountancy you cannot detect whether or not it is unreasonable, you can only detect whether or not it has been actually spent and reflected in the books?—A. Exactly.

Q. The question of its reasonableness or otherwise is not a matter of accountancy?—A. That is one for the management of the company.

Q. Just as you have indicated with respect to depreciation, that it is a matter not for accountancy, but you set out what are the facts charged in the books and show that if that same condition continues the whole depreciable plant would be wiped out in $6\frac{3}{4}$ years?—A. Yes.

Q. Then it is a matter of opinion for someone else to determine whether or not that basis is reasonable?—A. Yes.

Mr. KENNEDY *(Winnipeg)*: Mr. Chairman, I suggest that these respective companies, through their managing officials, be invited or requested to supply the committee with the information that is desired, to be outlined by counsel and yourself; and that if it is not furnished that they be summoned to come here, and be examined.

The CHAIRMAN: They will be available here for examination.

By Mr. Ilsley:

Q. I am at a loss to know just what we are after myself. I was not here yesterday, so I am at a disadvantage. I suppose the large sum charged at the Toronto plant for head office would mean that it would leave a much smaller sum to be charged to the smaller plants?—A. That is the case, yes.

Q. The total picture is not changed a bit?

The CHAIRMAN: That is not all there is to it, Mr. Ilsley.

Mr. ILSLEY: What is the rest of it?

Mr. SOMMERVILLE: Part of the difficulty, Mr. Ilsley, was that we were endeavouring to find the spread between the price paid for the product and the price at which the product was sold.

Mr. ILSLEY: Yes.

Mr. SOMMERVILLE: In trying to find that spread we met this difficulty, there was no consolidated statement of the operations of the company; and there being no consolidated statement, you could not get that spread. In order to make a consolidation of one plant to indicate the system followed, the auditors took four men four weeks to prepare this statement which is now submitted to us; and when it is prepared it is then found to contain these charges that are made against the Toronto plant on the sale of twenty million dollars worth of product.

Mr. ILSLEY: These auditors estimate the proper amount to be charged against the Toronto plant—is it in there?

The CHAIRMAN: No, it is the actual amount.

By Mr. Ilsley:

Q. Let me see, why did you take 4 weeks' time just to take these figures from the books of the company?—A. Because you have got to consolidate 70 departments for 13 operating periods, and 50 items in each statement for one year.

By Mr. Sommerville:

Q. This is not prepared as a single statement even the Toronto plant has not got a single statement.

Mr. ILSLEY: I see, I will not waste the time of the committee any longer on that.

The WITNESS: These are the papers (indicating large file) that were used to effect that consolidation.

Mr. SOMMERVILLE: Yes, and they make a large volume.

The WITNESS: That is what you have got to do, take each of these items and spread them so as to get your statement.

By Mr. Ilsley:

Q. Yes, then taking the head office charge, some $502,000, that is what the company says is the proper share of the head office charge to be entered against the Toronto plant?—A. That is so.

By Mr. Sommerville:

Q. And that item is spread through these various departments?—A. Yes.

Q. And when it is all gathered in from these departments it makes a total of $502,131?—A. Yes.

Mr. ILSLEY: It is part of our duty to determine whether that is excessive, and to me it looks as though that particular item of head office charge is excessive. I presume the same thought has occurred to the chairman.

The CHAIRMAN: Yes. You see, what you are going to be confronted with is the argument by the company that inasmuch as they show a loss on a set up of this kind, no one in the public can have been affected adversely; that is virtually what will be the argument. Now, the question is in my mind, and I ask it very candidly, whether that set-up does justify any such position.

Mr. ILSLEY: How are you going to find that out? You cannot find it out from the auditors figures of their business.

Mr. SENN: There is another very vital question that is raised I think: as Mr. Sommerville stated you want to find the spread between the price to the producer and the price to the consumer; but I think we were assured by Mr. McLean when he was here that the price to the producer was based on the price to the consumer. How could you estimate it on that basis if these figures are not consolidated so that some estimate of that price to the producer is available? That, seems to me, is the most important question of the lot; what basis did they work on to formulate that price to the producer, if he can't consolidate these figures and show the amount.

Mr. ILSLEY: I think all Mr. McLean meant was the market price of bacon in a general way related to what the consumer is paying; and specifically to what the consumer in Great Britain pays for the product.

Mr. SOMMERVILLE: What they could get, is the way to put it I think.

Mr. SENN: What I would like to get at is the basis on which the packer estimates his price to the producer.

The CHAIRMAN: Let me repeat, but without bias, my mystification with respect to plant overhead, car route sales charges, branch house commissions, fixed charges and depreciation, head office charges and interest; they total $2,258,000 out of $3,651,000 of that excess of 18 per cent that we mentioned a moment ago; and as I say, I am curious to know whether that is a fair and efficient set up—that is what I would like to see demonstrated.

Mr. FACTOR: Of course, there is this point also to consider: is that 18 per cent excess of sales over cost excessive in itself. I mean, there were $20,000,000 sales, for which over $16,000,000 were paid for in raw materials, leaving a gross balance of over $3,500,000, which represents 18 per cent. Taking it by itself, could we consider that 18 per cent excessive as a spread between the total return from sales and the cost of the material—leave the other items out of it altogether.

Mr. SOMMERVILLE: Then, of course, the charges against that are affected by the amount of the depreciation that is taken, whether or not that depreciation is taken on $18,000,000 of buildings, or $11,000,000 of buildings.

Mr. FACTOR: That is not the point I am making.

Mr. SOMMERVILLE: I quite appreciate your point, on the gross profit itself.

Mr. FACTOR: Yes, which they have shown with their sales amounting to over $20,000,000.

The CHAIRMAN: Before we let this stand I would like to ask Mr. Shepherd if he could give us a similar statement, if he has it ready, for Gainers and Wilsils, two of the smaller plants. Have you got that?

The WITNESS: We are preparing that.

The CHAIRMAN: Have you got Swifts?

The WITNESS: Gainers and Wilsils are already available in the reports we have submitted.

Mr. SOMMERVILLE: Swifts has been typed.

The CHAIRMAN: Where is Wilsils?

Mr. SOMMERVILLE: Wilsils went to the reporter. Here is Swifts.

The CHAIRMAN: I have before me Wilsils. I would like the committee to note that in this concern, which is one of the smaller independent concerns, the auditors were able to set up for each year the very story we were asking for; and taking December, 1933—last year—you have net sales $5,244,000; and the cost of goods sold $4,641,000; or a gross margin of $602,000 or 11·50 per cent.

Mr. YOUNG: That covers all of the same charges.

By the Chairman:

Q. Just let me ask that question: Mr. Shepherd, you have heard the figures I have just quoted?—A. Yes.

Q. Is that figure based upon the same type of calculation as that on which you based the Canada Packers' $20,000,000, less cost of live stock?—A. No, there are differences in the basis used. We had to adopt the packers' own figures there.

Q. Can you tell us what is included in this $4,641,000 in the Wilsil statement?—A. Of that $785,314.90 is manufacturing expenses, and $3,903,134.05 is purchases.

Q. Have you got the figure there for raw materials, ingredients and packages?—A. No, that is not shown separately, we cannot get it separate. The $3,900,000 would probably include packages.

Q. It is not a comparable figure then?—A. No, it is not.

Mr. SOMMERVILLE: But the gross margin that is shown in Wilsils, after taking off the cost of the goods sold which includes the manufacturing item, is: For 1933, 11·50 per cent; for 1932, 9·34 per cent; for 1931, 9·01 per cent; for 1930, 7·83 per cent; and for 1929, 7·07 per cent.

Mr. FACTOR: You mean the excess of sales over cost.

Mr. SOMMERVILLE: That is the gross margin in each of these years.

Mr. FACTOR: Have you the figures comparable to the 18 per cent of Canada Packers?

Mr. SOMMERVILLE: Not exactly, I think we can get a comparable figure in just a minute. Then, from that figure, there is deducted operating expenses for each of these years: in 1933, 5·94 per cent; for 1932, 7·06 per cent; for 1931, 6·08 per cent; for 1930, ·39 per cent; and for 1929, 3·86 per cent. That covers all the operations of the company, does it not?

The WITNESS: I have not those figures before me.

Mr. SOMMERVILLE: That is the only one that is available. You are referring now in your statement to the gross margin from which you deducted

operating expenses, and the only other item deducted is bond and mortgage interest.

The WITNESS: Yes.

By Mr. Sommerville:

Q. So that I take it that all of the operating expenses and manufacturing expenses are included in these two items; cost of goods sold, and operating expenses?—A. That is so.

Q. And then you deducted for bond mortgage interest: in 1933, 1·25 per cent; in 1932, 1·55 per cent; in 1931, 1·35 per cent; in 1930, 1·20 per cent; and in 1929, 1·07 per cent; and that reduces the amount of the net operating profit to 4·31 per cent—according to your statement here?—A. Yes.

Q. Or a total net operating profit of $225,776.86, on operations for the year of $5,200,000 sales.

By Mr. Factor:

Q. Is that figure comparable to the 18 per cent shown by Canada Packers? —A. It is not really comparable, they are arrived at on a different basis.

By Mr. Sommerville:

Q. Will the addition of the cost of the goods plus the operating statement give you any comparable figure?—A. It might be.

By Mr. Factor:

Q. Take your 1933 cost of goods, 11·50; and manufacturing 5·94—that is the total of 17·44 per cent—is that a comparable figure to the figures shown in the Canada Packers statement?—A. I could not say definitely without taking the figures and working that out.

Q. Is it approximately comparable?—A. I could not say that.

Q. Have you got any figures in the Wilsil statement showing what the sales were, the materials and live stock, and the difference in the two; have you got that?—A. The sales were $5,244,670.97.

Q. What is the next, live stock materials and packages?—A. $4,641,777.02.

Q. And the difference is what?—A. $602,893.95.

Q. And what percentage does that bear to the total?—A. 11·50 per cent.

Q. Then it is a comparable figure to the 18 per cent of Canada Packers? —A. No, the operating expenses of Wilsils are shown separately.

By Mr. Sommerville:

Q. That figure you have given as cost of materials includes the item for manufacturing in Wilsils of some $700,000?—A. Yes, that is so.

By Mr. Factor:

Q. Then the percentage would be less than if you exclude that $700,000? —A. It would be greater.

The CHAIRMAN: Well, supposing you take Swift's statement.

By Mr. Factor:

Q. Before you do that, Mr. Chairman, I just want to pursue this a little further. Is there any way in which you can show the Wilsil set up in the same way as that in which you showed the Toronto Packing plant. In the first three items at the Toronto Packing plant you have sales, cost of live stock, and the excess of sales over cost. Is there any way by which you can show it in the same way in the Wilsil operations for 1933?—A. No, the figures are not on a strictly comparable basis.

Q. Why, I cannot understand that?—A. Because the Wilsil figures are prepared to certain specifications, whereas Canada Packers figures are their own figures that we had to take off in the form in which they had them. If we had started in to adjust their figures we would never have been able to get it.

By Mr. Sommerville:

Q. That is, Wilsil's figures are adjusted, are they?—A. Yes, they are on a certain basis which we were asked to use.

Q. And Canada Packers could not be set up on that basis and completed?—A. Not without analyzing the whole accounts to bring them into the same heading.

Mr. YOUNG: In the case of Wilsil you have given us materials and then you have given us manufacturing, in the case of Canada Packers you have given us materials and then you have expenses; now, will these expenses cover more than the cost of manufacturing?

Mr. SOMMERVILLE: Oh yes, they cover the cost of selling.

The WITNESS: And head office expenses, etc.

Mr. YOUNG: If we add 11·50 per cent to the 5·94 per cent we get 17:44 per cent; and you still have to get the cost of selling to get the Wilsil proper figure.

The CHAIRMAN: Well now, are you through on that Mr. Factor? Mr. Shepherd, would you turn to Swifts account, that is a statement comparable to the one we were discussing a moment ago. I would like just to draw the attention of the committee to this, the Swifts account is the same as that one we have analyzed for Canada Packers; it shows sales of $7,859,000, which is almost 40 per cent of what Canada Packers sales were. Now, we have an item here, local selling, and teaming and trucking—local selling is $42,800, and teaming and trucking is $25,000; which is $68,000 (roughly) combined—would that item be comparable to the $656,000 salesmen's salaries, expenses and car routes.

The WITNESS: The salaries are shown in the $1,600,000, so it is not comparable.

Mr. SENN: Would salaries not be shown under head office charges?

The CHAIRMAN: In Swift's, you mean.

The WITNESS: In Swifts, yes.

The CHAIRMAN: The statement with respect to the Swift Canadian company will be entered in the record at this point.

SWIFT CANADIAN COMPANY LIMITED

Toronto Packing Plant

Profit and Loss Account for the year ended October 28, 1933

Sales (including shipments to Branch Houses, Other Plants, etc.) less Branch House Commissions on consignments, etc.			$ 7,859,685 83
Cost of Materials used:			
Inventory as at October 29, 1932		$ 826,219 00	
Purchases including, freight, yardage, etc.		6,890,905 01	
		$ 7,717,124 01	
Less Inventory as at October 28, 1933		1,309,936 00	
		$ 6,407,188 01	
Supplies used		405,188 53	
			$ 6,812,376 54
Excess of Sales over Cost of Materials used			1,047,309 29
Expenses:			
Salaries		$ 160,930 18	
Labour—Direct	$ 568,364 36		
Indirect	18,835 95		
		587,200 51	
Depreciation		100,467 95	
Local Selling		42,842 63	
Advertising		26,126 62	
Teaming and Trucking less profits on sales of trucks, etc.		25,022 97	
Taxes		23,078 00	
Chicago Administrative		19,513 00	
Fire Insurance—Buildings, Machinery and Stock on hand		16,660 00	
Outside Freezer Storage		15,435 00	
Local Administrative		11,270 62	
Miscellaneous		5,930 98	
Buying		5,610 07	
Plant Administrative		4,062 30	
Casualty Insurance		3,635 00	
Rent		2,969 00	
Protection		1,200 00	
		$ 1,051,954 65	
Deduct Services, etc., charged to Branch Houses and others and transfers to fixed assets		74,845 76	
			$ 977,108 87
Net Operating Profit			70,200 42
Miscellaneous Income (Net):			
Exchange		47,412 16	
Interest on Bank Balances, etc.		15,384 61	
Other income		550 41	
		$ 63,347 18	
Less Idle Property Expenses (Net) including depreciation $1,795.44		5,951 88	
			$ 57,395 30
Net Profit (before providing for Income War Tax)			$ 127,595 72

By Mr. Sommerville:

Q. That covers all salaries and head office as well, does it?—A. The car route department is not included in the Swift figures at all, but it is in the Packers.

By the Chairman:

Q. Where is it disclosed in Swifts?—A. It is a separate figure.

Q. It is not in this?—A. No, this is the packing plant.

Q. Well, take the Chicago administration; that would be your overhead, would it not?—A. Part of it.

Q. For head office overhead, that is $19,500 as against $500,000 in the other case?—A. They don't cover the same items at all.

Q. I can see they don't cover the same items, but I am trying to find out some common basis upon which we can estimate these things.

Mr. Senn: About the only way you can compare them is in the total, I am afraid.

By Mr. Factor:

Q. Take the item of buying in the Canada Packing. For buying expenses you have got $139,906 to buy $16,000,000 worth of goods; and you have got in the other statement, buying expenses of $5,610 to buy $7,000,000 worth of goods, less inventory—say over $6,000,000 worth of goods. Is that figure in any way comparable?—A. The packer figure includes salaries, and Swifts does not.

Q. No matter what we touch, we don't seem to be able to get anywhere.—A. Well, they are not prepared by the company on a comparable basis.

By Mr. Sommerville:

Q. That is, you take the company's own figure, at least, according to their own set up?—A. According to their own set up.

Q. And you gather them together in a consolidated statement?—A. That is all.

Q. To show how the net result was arrived at?—A. Yes.

The CHAIRMAN: I think you could safely say for our consolation that there has been nothing overlooked in that Canada Packers, has there?

Mr. SENN: May I point out that the total of expenses in both cases bear a pretty close relationship in the matter of percentages to the volume of sales.

The CHAIRMAN: That is what I was trying to find. I could not find it.

Mr. SENN: The total expenses in both those cases have a very close relationship to the volume of sales. One might be 35 per cent and the other 40 per cent.

The CHAIRMAN: You mean $977,000 as against $3,000,000?

Mr. SENN: $1,000,000 as against $7,859,000; and $3,000,000 against $20,000,000. There is some discrepancy, of course, but it is not so great after all.

By Mr. Sommerville:

Q. What did the total expenses in Packers amount to; what is the percentage toward sales?—A. We are just working that out.

Q. And also in Swifts?—A. 17 in Packers and 12½ in Swifts.

Q. 17 in Packers and 12½ in Swifts?—A. Yes. The one in Packers is before taking the interest out.

Q. Before taking the interest out?—A. I beg your pardon, that is with the interest out.

Q. That is with the interest out, and the interest is out in Swifts?—A. Yes.

Q. So that the total proportion of expenses to sales in Packers is 17 per cent, and in Swifts 12½ per cent?—A. Yes.

Mr. SENN: That is about as far as we can very usefully go, on those figures.

By Mr. Ilsley:

Q. Then the advantage is with Swifts again. When you subtract the cost of materials from the total sales, the spread is not as great. $3,651,000 is a greater percentage of $20,308,000 than $1,047,000 is of $7,859,000?—A. 13 against 18.

By Mr. Sommerville:

Q. Now, will you let us have the memorandum you have prepared on the Swift Canadian Company, prepared in the same way in your investigation as the other plants you have dealt with? This is a report on the Swift Canadian Company, similar to the report on Gainers, Wilsils and Canada Packers?—A. Yes.

Mr. FACTOR: I suppose we will get as much as we got with Canada Packers.

Mr. SOMMERVILLE: Well, I think perhaps you will get another picture.

The CHAIRMAN: All right, Mr. Shepherd, will you proceed with that?

Mr. SOMMERVILLE: This will be copied into the record at this point.

TORONTO, ONT., May 19, 1934.

MEMORANDUM *RE* SWIFT CANADIAN CO., LIMITED

In the following paragraphs we submit certain information prepared from the books and records of the Company and from information obtained by us from the Management, without independent verification of the accounts.

The scope of our investigation, which is outlined in general terms in the Resolution of Parliament, may be divided into the following specific enquiries:—

(*a*) To ascertain the Net Income earned on the capital invested in the Company after eliminating extraneous charges or credits to operations, if any.

(*b*) To determine the spread between the price paid to the producer of live stock and the price received by the Packer from the sale of the various products manufactured from live stock.

(*c*) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments (2) stockyards or markets and (3) truckers, and the percentage which each of these classes bears to the total purchases.

(*d*) To determine the hourly rates of wages paid by the Company, and to prepare a tabulation giving the number of employees paid at each of the different hourly rate.

In support of the information included in the memorandum we submit the following statements:—

Exhibit "A"—Balance Sheet as at October 28, 1933.

Exhibit " B "—Condensed statement of operations for the five years ended October 28, 1933.

Exhibit " C "—Statement showing percentage of Net Income to Invested Capital for the five years ended October 28, 1933.

Schedule " 1 "—Statement showing the estimated average loss on 150 Truck Hogs bought on April 11, 1934.

The accounts of Swift Canadian Co., Limited, are maintained at the plants at Toronto, Winnipeg, Edmonton, Moose Jaw, New Westminster and Moncton, and at numerous Branch Houses, Produce Houses and other selling organizations. Each of the plants receives periodical reports from the Branch Houses, etc., in its district and the net results so reported are incorporated in the Packing House books. The plants in turn submit monthly summaries of their operating results and financial position to the Toronto plant where the net profit or loss of the organiation is recorded.

Our examination was confined to the records maintained at the Toronto and Edmonton plants and in preparing this memorandum we have made use of the summaries and reports received from the remaining plants without verification.

(*a*) To ascertain the Net Income earned on the capital invested in the Company after eliminating extraneous charges or credits to operations, if any.

Capital.—On December 13, 1902, Letters Patent were granted under the authority of The Companies Act, 1902 (Dominion) incorporating J. Y. Griffin and Company, Limited, with a capital of $500,000 divided into 5,000 shares

of $100 each. Supplementary Letters Patent were granted on January 2, 1911, changing the name of the Company to Swift Canadian Co., Limited, and increasing the capital to $1,000,000 divided into 10,000 shares of $100 each. The capital was again increased by Supplementary Letters Patent on October 5, 1914, to $3,000,000 and on October 17, 1917, to $5,000,000, at which date all the shares were issued, the par value being $100. During the five years ended October 28, 1933, therefore, the capital of the Company was $5,000,000 divided into 50,000 shares of $100 each, on which no dividends were paid. There were no bonds outstanding during the period.

In Exhibit "A" we submit a Balance Sheet of the Company at October 28, 1933, prepared from the books of the Toronto plant and the monthly returns from the plants at Winnipeg, Edmonton, Moose Jaw, New Westminster, and Moncton, without independent confirmation.

Net Income.—A summary of the operating results for the five years ended October 28, 1933, is submitted in Exhibit "B". We are informed that the Company is controlled by Swift and Company, Chicago, although we are unable to substantiate this fact from the stock records since the capital stock is registered in the names of various individuals and we were unable to secure information as to the terms on which it is held.

For this reason and in an endeavour to determine whether the numerous transactions between the two Companies result in a loss to the Canadian Company we have made an examination of the inter-company account with Swift and Company, Chicago, maintained at the Toronto plant. If it were found that the Canadian Company made sales to the affiliated Companies below the prevailing market price or purchased merchandise from them above the prevailing market price, this fact would partially explain the low percentage of net income to sales of ·07 per cent for the five years under review, but no evidence of such a condition was found in the course of our examination of the Toronto accounts.

We are informed by the officials of the Company that sales to and purchases from the various affiliated Companies are made at the prevailing market price that would be used in dealing with outside purchasers or sellers. Our restricted examination, however, did not permit us to determine the facts in this connection.

In reviewing the operations consideration was given to such controllable items of cost as salaries, repairs and depreciation and adjustment of inventories which might have an important bearing on the net income of the Company as reported.

No items of sufficient relative importance were found to warrant adjustment of the earnings, but as our examination was restricted to the Toronto and Edmonton plants we are unable to say definitely that no such adjustments are required. Particular attention is directed to our remarks later on in this report regarding repairs and renewals.

The following comment is submitted on certain items included in the operating statement.

Sales.—The Company does not maintain any form of record from which the total sales of the organization as a whole can readily be tabulated. For the purpose of the annual Dominion Income Tax Returns the Company compiles a figure which, we are informed, represents sales to the public in Canada. This figure excludes, we understand, all inter-plant and inter-departmental transfers and also all transfers to associated companies in the United States and England. In the absence of any authentic total of sales we have accepted this figure without confirmation, and on this basis we have prepared a tabulation of the sales to the public in Canada, together with the percentage which the net income bears to such sales.

If the actual sales of the organization could be determined the resulting percentage of net income to sales would be lower than that shown in the following tabulation.

Period of 52 weeks ended:	Sales	Net Income	Percentage
	$ cts.	$ cts.	%
October 28, 1933	24,359,178 91	400,210 36	1·64
" 29, 1932	25,006,885 38	364,407 09	1·46
" 31, 1931	33,545,009 59	517,709 25	1·54
November 1, 1930	48,472,056 03	31,678 49	0·07
" 2, 1929	50,080,518 45	574,657 37	1·15
Total	181,463,648 36	124,429 88	
Average for period	36,292,729 67	24,885 97	0·07

Inventories.—We reviewed the basis of valuation used by the Toronto plant in compiling the inventories as at October 29, 1932, and October 28, 1933, and found that in general the prices were conservatively based on estimated cost or market, whichever was lower. We are informed that no material change was made in the basis of pricing inventories at the Toronto plant during the five years under review. No information is available at Toronto regarding the basis used in pricing the inventories at the other plants as the instructions in this connection are issued direct by the officials of Swift and Company in Chicago.

Depreciation Rates.—The following average rates have been used by the company in computing depreciation on fixed assets for Income Tax purposes during the period under review. The information was secured by us from the Income Tax Returns, but we have not reconciled the figures with the books except in the case of the Toronto plant.

Buildings	2·33%
Machinery	4·14
Office Furniture, Fixtures and Equipment	10·89
Delivery and Motor Equipment	25·36
Branch House Buildings and Equipment. (The asset value on which this percentage is based includes land, the book value of which is not known.)	3·34
Other Assets	3·93

Repairs and Renewals.—We are informed that the general policy of the company is to capitalize only those expenditures which will result in a saving or produce income of an amount which can actually be calculated and which will yield at least a nominal return on the investment. All other expenditures are charged to repairs. Renewals of complete units of the plant are, we understand, charged to the Depreciation Reserve, but the cost of renewing a part of a unit, even when the amount involved is substantial, is charged to repairs. In order to determine the effect of this policy on the repair costs of the company we made an examination of the jobs costing $500 and over, at the Toronto plant, which were charged to repairs during the five years under review, and in the following tabulation we show the yearly totals of items which might be considered as being of a capital nature and therefore chargeable to fixed asset accounts or depreciation reserves, but which actually were classified as repairs and accordingly charged against operations:

Period of 52 weeks ended:	Amount
	$ cts.
October 28, 1933	5,113 17
" 29, 1932	10,680 19
" 31, 1931	40,320 32
November 1, 1930	62,115 85
" 2, 1929	18,633 36
Total	136,862 89
Average for period	27,372 57

Executive Salaries.—The salaries paid to the executives of the company during the calendar year ended December 31, 1933, were secured from the returns made to the Income Tax Department, and in the case of salaries paid at the Toronto plant were checked with the company's salary records for the year 1933, the salaries of the three executive officers total $28,840.82.

Invested Capital.—In Exhibit "C" we submit a statement showing the relation which the Net Income bears to the average invested capital during the period under review, based on the annual Balance Sheets and Profit and Loss Accounts prepared by the company. The invested capital is represented by the par value of the issued capital stock, together with the accumulated surplus.

On the above basis the percentage of net income to invested capital is as follows:—

52 weeks ended:	Average Invested Capital	Net Income	Percentage to Invested Capital
	$ cts.	$ cts.	%
October 28, 1933	9,927,429 69	400,210 36	4·03
" 29, 1932	9,915,837 68	364,407 09	3·66
" 31, 1931	10,362,309 06	517,709 25	5·00
November 1, 1930	10,595,820 62	31,678 49	0·30
" 2, 1929	10,287,078 20	574,657 37	5·59
Total	51,088,475 25	124,429 88	
Average for period	10,217,695 11	24,885 97	0·24

(*b*) To determine the spread between the price paid to the producer of live stock and the price received by the Packer from the sale of the various products manufactured from live stock.

In the case of Swift Canadian Co., Limited, a large part of the Company's transactions are represented by the purchase, manufacture and sale of products which are not derived from live stock. The business is divided into numerous departments, each of which is engaged in the handling of a particular product or group of related products, and the accounting records of the Company are designed to conform to this division and furnish separate operating results for each department. In the case of live stock certain products pass through a number of departments and in the process, products derived from other species of live stock are combined and sold as one finished product.

The Company does not maintain any records from which the spread between cost and selling price can be ascertained, but to secure approximate net gains or losses for their own information the officials have "Killing and Cutting Tests" made from time to time and by the use of estimates of the net realization from each product they arrive at the estimated gain or loss on the sale of an average live animal. In Schedule "1" we submit a summary of a typical "Killing and Cutting Test" of 150 truck hogs bought on April 11, 1934, which shows that the average loss amounted to 15·84 cents per 100 pounds of live weight. As, however, these "tests" cannot be reconciled with the actual operating results of the Company we feel that they are of little, if any, value in determining the actual net loss or gain on a live animal.

For the reasons stated above we are unable to determine the spread between the price paid to the individual producer of live stock and the price received by the Packer from the sale of the resulting fresh and manufactured products, and we are therefore forced to substitute for this enquiry consideration as to whether the Packer receives a reasonable or an excessive return (*a*) on the capital invested

and (b) on the sales made to the public. The information necessary to arrive at a conclusion on these points is submitted in the section of this memorandum dealing with invested capital and sales, the average return shown being ·24 per cent on invested capital and ·07 per cent on sales.

(c) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments (2) stockyards or markets and (3) truckers, and the percentage which each of theses classes bears to the total purchases.

The above information has been secured from the Toronto and Edmonton plants in connection with what are termed by the Company "Mixed Medium" hogs (excluding the following grades; No. 4, Heavy, Extra Heavy, Stags, Cripples and Shops) for the three periods of four weeks each ended September 27, 1933, December 27, 1933 and March 28, 1934, and is summarized below.

—	Direct shipments	Stockyards or markets	Truckers	Test lots, etc.
	$ cts.	$ cts.	$ cts.	$ cts.
Toronto—				
4 weeks ended Sept. 27, 1933*	9 83	9 49	9 44	9 74
" " Dec. 27, 1933*	8 86	8 93	8 60	8 36
" " Mar. 28, 1934*	12 56	12 33	12 07	12 49
	%	%	%	%
4 weeks ended Sept. 27, 1933†	55·3	29·0	14·4	1·3
" " Dec. 27, 1933†	47·1	37·0	11·7	4·2
" " Mar. 28, 1934†	56·2	29·1	8·6	6·1
	$ cts.	$ cts.	$ cts.	$ cts.
Edmonton—				
4 weeks ended Sept. 27, 1933*	8 07	8 27	8 07	....
" " Dec. 27, 1933*	7 42	6 74	7 10	....
" " Mar. 28, 1934*	11 39	11 24	11 08	....
	%	%	%	%
4 weeks ended Sept. 27, 1933†	40·8	2·6	56·6	....
" " Dec. 27, 1933†	49·7	1·9	48·4	....
" " Mar. 28, 1934†	57·5	11·0	31·5	....

*Average cost per 100 pounds dressed weight, not including killing and dressing expenses and before deducting value of by-products.
†Percentage of total killed.

The current prices paid for hogs at the Toronto plant are based on the market prices for the bacon grade with the following differentials on or off the bacon grade:

Select Premium of $1 per head above the bacon.
Butcher Discount of $1 per head below the bacon.
Light Discount of $1 per head below the bacon.
Heavy Discount of $1.50 per head below the bacon.
Extra Heavy Discount of $1 to $1.50 per 100 pounds below the bacon.
Sow Discount of $2.50 per 100 pounds below the bacon.
Stags Discount varies.

The corresponding differentials in use at the Edmonton plant are as follows:

Select Premium of 50 cents per 100 pounds above the bacon.
Butcher Discount of 50 cents per 100 pounds below the bacon.
Light and Shop Discount of $1 per 100 pounds below the bacon.

Heavy Discount of $1.25 per 100 pounds below the bacon.
Extra Heavy Discount of $2 per 100 pounds below the bacon.
Rough Discount of $3.50 per 100 pounds below the bacon.
Smooth Sows Discount of $2.50 per 100 pounds below the bacon.
All other Sows Discount of $3 per 100 pounds below the bacon.
Stags Discount varies.
Cripples Discount of $2.50 per 100 pounds below the bacon.

From the records maintained by the Company it is not possible to determine whether the Company gains an additional profit through the operation of the differentials before mentioned. After the hogs are dressed and cut they lose their identity in the plant, and the product is sold at the most advantageous market price.

The average dressed cost of all classes of cattle, veal, sheep and lambs at the Toronto plant for the two weeks ended March 31, 1934, are tabulated on the following page. Prior to this period the records maintained by the Company did not show the distribution of the purchases under the required headings.

—	Direct Shipments	Stockyards or markets	Truckers
	$ cts.	$ cts.	$ cts.
Toronto—			
Cattle (all classes)*	9 07	8 16	6 30
Calves " *	8 30	10 21	9 13
Sheep*	4 95	7 66	5 71
Lambs*	15 80	15 88	12 53
	%	%	%
Cattle (all classes)†	6·0	91·1	2·9
Calves " †	18·5	73·0	8·5
Sheep†	4·2	86·9	8·9
Lambs (42·6 per cent of lambs killed were transferred from the feed lot)†	9·3	47·7	0·4

*Average cost per 100 pounds dressed weight included estimated killing and dressing expenses and less estimated value of by-products for the two weeks ended March 31, 1934.
†Percentage of total killed.

The records at the Edmonton plant are not designed to furnish the foregoing statistics relating to cattle and small stock.

(*d*) To determine the hourly rates of wages paid by the Company, and to prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In the following table we submit information in connection with the Toronto and Edmonton plants showing the number and percentage of the Company's employees, not including office clerks, engaged at various hourly and weekly rates for the week ended March 24, 1934. In the case of the Toronto plant the wage rates include the regular bonuses, but the rates for the Edmonton plant represent the basic rates only aggregating $5,372.67 the bonuses amounting to $212.39 having been excluded.

TORONTO

Hourly Rates and Bonus	Number of Employees	% of Total
23½c	2	·37
24	1	·18
25¼	1	·18
25¾	1	·18
27	1	·18
27½	1	·18
28½	1	·18
29	3	·55
29¼	2	·37
30	3	·55
31–35	71	13·01
36–40	112	20·51
41–45	104	19·05
46–50	63	11·54
51–55	41	7·51
56–60	12	2·20
61–65	16	2·93
66–70	8	1·47
71–75	1	·18
76 and over	2	·37

Weekly Rates and Bonus	Number of Employees	% of Total
$12.54	3	·55
17.82	1	·18
18.86	1	·18
19.50	1	·18
19.80	4	·73
20.01 to $25.00	38	6·96
25.01 to 30.00	21	3·85

Hourly Rates and Bonus	Number of Employees	% of Total
$30.01 to $35.00	15	2·75
35.01 to 40.00	5	·92
40·01 to 45.00	3	·55
45.01 to 50.00	3	·55
50.01 to 55.00	1	·18
55.01 to 60.00	2	·37
60.01 to 65.00	1	·18
65.01 to 70.00	1	·18

EDMONTON

Hourly Rates not Including Bonus	Number of Employees	% of Total
25c	7	2·20
27½	3	·94
28½	34	10·66
30	44	13·79
31–35	73	22·89
36–40	61	19·12
41–45	33	10·34
46–50	15	4·70
51–55	4	1·25
56–60	3	·94
61–65	4	1·25
66–70	9	2·82

Weekly Rates not Including Bonus	Number of Employees	% of Total
$12.00—$13.00	5	1·58
13.01— 14.00	1	·31
14 01— 15 00	1	·31
15.01— 16.00	2	·63
16.01— 17.00	2	·63
17.01— 18.00	2	·63
20.01— 25.00	15	4.70
30.01— 35.00	1	·31

The average hourly rates, including bonus, paid to all employees of the Toronto plant who are engaged on an hourly basis for the weeks ended March 24, 1934 and October 7, 1933, were 43¼ cents and 38½ cents respectively. The average base rate, not including bonus, paid to the same class of employee at the Edmonton plant for the week ended March 24, 1933, was 37 cents per hour.

Our examination of the records relating to payrolls at the Toronto and Edmonton plants indicates that none of the Company's employees are on piece-work, but in a large number of departments a bonus system is in operation whereby both foremen and workmen receive a premium for units produced in excess of a pre-determined standard. We note that in the departments operating under this scheme, practically every employee participates in the weekly bonus payment. We are informed that employees are guaranteed a 40 hour week to that extent no employee is required to "stand-by" in his own time. Our examination of the payrolls over a period did not disclose any evidence to the contrary.

At the Toronto plant the basis of employment for foremen is a 50 hour week and for workmen a 48 hour week. An examination of the payrolls for the weeks ended October 7, 1933, December 2, 1933 and March 24, 1934, disclose that, subject to a general increase of ten per cent on October 7, 1933, the rates were substantially the same as those given in the foregoing tabulation.

EXHIBIT "A"

SWIFT CANADIAN CO., LIMITED

BALANCE SHEET AS AT OCTOBER 28, 1933

ASSETS

Current Assets:		
Cash on Hand and in Banks		$ 455,768 71
Accounts Receivable:		
Trade Accounts	$ 1,497,138 96	
Sundry Debtors	55,188 54	
	1,552,327 50	
Less Reserve for Bad Debts	39,858 90	1,512,468 60
Inventories—at Cost of Market:		
Product	3,128,194 19	
Supplies	355,584 17	3,483,778 36
Other Current Assets		4,073 52
Total Current Assets		5,456,089 19
Prepaid Expenses and Deferred Charges		20,900 35
Advances to Affiliated Companies		26,462 87
Investments		218 58
Fixed Assets:		
Land	334,557 00	
Buildings	3,950,163 43	
Machinery	2,483,920 48	
Furniture and Fixtures	210,179 43	
Delivery Equipment	410,855 77	
Branch Houses—Land, Buildings and Equipment	1,916,536 55	
Other Fixed Assets	204,458 84	
Construction (including repairs) in Progress	25,834 38	
	9,536,505 88	
Less Depreciation Reserve	4,460,870 57	5,075,635 31
Open Items, Inter-plant and Branch House Accounts		864,615 73
Total		$11,443,922 03

LIABILITIES

Current Liabilities:	
Accounts Payable:	
Trade Creditors	$ 327,295 39
Sundry Creditors	373,141 36
	700,436 75
Accrued Liabilities	19,950 76
Reserve for Dominion Income War Tax (estimated)	75,678 87
Total Current Liabilities	796,066 38
Due to Affiliated Companies	5 39
Pension and Benevolent Reserve	111,451 02
Fire Risk Reserve, etc	409,000 92
Capital:	
Authorized and Issued—50,000 shares of $100.00 each	5,000,000 00
Surplus	5,127,398 32
Total	$11,443,922 03

Exhibit "B"

SWIFT CANADIAN CO., LIMITED

Condensed Profit and Loss Account for the Five Years ended October 28, 1933

—	Fiscal Year ended Oct. 28, 1933	Oct. 29, 1932	Oct. 31, 1931	Nov. 1, 1930	Nov. 2, 1929
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Operating Profit or *Loss*	537,833 16	*282,474 44*	*512,829 36*	38,923 77	628,930 47
Miscellaneous Income and *Charges.*					
Exchange	*68,530 16*	*82,137 76*	1,268 72	13,838 79	14,003 44
Interest on bank balances, etc.	15,914 21	1,589 64	1,492 48	2,748 90	3,294 03
Non-operating Income and Expense	330 70	7,763 00	*2,474 86*	*3,369 70*	*12,904 71*
Idle property Expense (net)	*11,337 55*	*9,147 53*	*5,166 23*	*4,037 62*	*10,293 78*
Total Miscellaneous Income and *Charges*	*63,622 80*	*81,932 65*	*4,879 89*	9,180 37	*5,901 02*
Net Profit or *Loss* before providing for Income War Tax	474,210 36	*364,407 09*	*517,709 25*	48,104 14	623,029 45
Dominion Income War Tax	74,000 00	....	....	16,425 65	48,372 08
Net Profit or *Loss*	400,210 36	*364,407 09*	*517,709 25*	31,678 49	574,657 37

Exhibit "C"

SWIFT CANADIAN CO., LIMITED

Statement Showing Percentage of Net Income to Invested Capital for the Five Years ended October 28, 1933

	As at Oct. 28, 1933	Oct. 29, 1932	Oct. 31, 1931	Nov. 1, 1930	Nov. 2, 1929	Nov. 3, 1928
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Current Assets (including Affiliated Company Accounts)	5,482,546 67	5,011,426 32	5,424,450 95	7,525,023 45	9,673,814 48	9,750,553 75
Current Liabilities (including Affiliated Company Accounts)	796,066 38	525,694 20	413,699 74	3,173,997 58	4,869 624 10	5,399,462 21
Net Current Assets	4,686,480 29	4,485,732 12	5,010,751 21	4,351,025 87	4,804,190 38	4,351,091 54
Prepaid and Deferred Charges (net)	20,900 35	23,366 84	4,797 75	*505 73*	35,194 93	69,340 49
Investments	218 58	218 58	221 58	221 58	220 58	3,117 28
Capital Stock and Surplus of Wholly Owned Subsidiaries	....	....	....	117,249 30	130,752 83	115,035 30
Fixed Assets	9,536,505 88	9,518,556 66	9,281,294 83	8,920,507 47	8,576,583 68	8,202,168 78
Open Items, Inter-plant and Branch House Accounts (net)	864,615 73	296,145 51	*37,091 26*	928,615 61	416,062 68	431,045 69
Total Assets less Current Liabilities	15,108,720 83	14,324,019 71	14,259,974 11	14,317,114 10	13,963,005 08	13,171,899 03
Deduct Reserves:						
Pension and Benevolent	111,451 02	74,347 41	....	....	....	....
Fire Risk, etc.	409,000 92	328,871 40	252,082 95	113,988 17	....	4,142 00
Depreciation	4,460,807 57	4,193,339 88	3,903,676 82	3,582,722 14	3,391,767 62	3,164,838 13
Total Reserves	*4,981,322 51*	*4,596,558 69*	*4,155,759 77*	*3,696,710 31*	*3,391,767 62*	*3,168,980 13*
Net Tangible Assets as at close of each Period	10,127,398 32	9,727,461 02	10,104,214 34	10,620,403 79	10,571,237 46	10,002,918 95
Net Tangible Assets as at close beginning of each Period	9,727,461 02	10,104,214 34	10,620,403 79	10,571,237 46	10,002,918 95	
	19,854,859 34	19,831,675 36	20,724,618 13	21,191,641 25	20,574,156 41	
Average Invested Capital	9,927,429 67	9,915,837 68	10,362,309 06	10,595,820 62	10,287,078 20	
Net Income for Year	400,210 36	*364,407 09*	*517,709 25*	31,678 49	574,657 37	
Percentage of Net Income on Average Invested Capital	4·03%	*3·66%*	*5·00%*	0·30%	5·59%	

SCHEDULE "1"

SWIFT CANADIAN CO., LIMITED

STATEMENT SHOWING THE ESTIMATED AVERAGE LOSS ON 150 TRUCK HOGS BOUGHT APRIL 11, 1934

150 truck hogs (53 selects, 81 bacons and 16 butchers)—	
Total live weight	29,350 lbs.
Less 1 condemned	195 "
Net live weight	29,155 "

	Yield in pounds		Amount per 100 pounds live weight
Average live cost			$ 7·647
Killing and cutting expenses (including interest), estimated			·50
			$ 8·147
Deduct proceeds of realization—estimated, less estimated costs of processing, selling and administration, including interest—			
Hams	4,296	$ 2·2828	
Shoulders	3,840	1·2515	
Loins	3,497	1·7668	
Bellies	2,451	1·3555	
Prime steam lard	2,418	·5181	
Trimmings	698	·2160	
Spare ribs	490	·1428	
Miscellaneous items	1,949	·1991	
By-products	826	·256	7·9886
	20,465		
Loss per 100 pounds			·1584

By Mr. Sommerville:

Q. I do not think you need to read that first part, about the scope of the investigation. It will be copied in?—A. All right.

The accounts of Swift Canadian Company Limited are maintained at the plants at Toronto, Winnipeg, Edmonton, Moose Jaw, New Westminster and Moncton, and at numerous branch houses, produce houses and other selling organizations. Each of the plants receive periodical reports from the branch houses, etc., in its district and the net results so reported are incorporated in the packing house books. The plants in turn submit monthly summaries of their operating results and financial position to the Toronto plant where the net profit or loss of the organization is recorded.

Our examination was confined to the records maintained at the Toronto and Edmonton plants and in preparing this memorandum we have made use of the summaries and reports received from the remaining plants without verification.

Q. You found in the Swift plants the same practice of accounting as you found in Canada Packers?—A. Yes, that is so.

Q. That is, the accounts being maintained by departments. You had in Swifts how many departments?—A. Over 70.

Q. Over 70 departments, and no consolidated statement of the operations?—A. That is so.

Q. In any one plant, or in Canada?—A. That is so.

Q. Will you just proceed?—A. Yes.

(*a*) To ascertain the net income earned, capital invested in the company after eliminating the various charges or credits to operation, if any.

Capital: On December 13, 1902, letters patent were granted under the authority of the Companies Act, 1902 (Dominion) incorporating J. Y. Griffin

& Company, Limited, with a capital of $500,000 divided into 5,000 shares of $100 each. Supplementary letters patent were granted on January 2, 1911, changing the name of the company to Swift Canadian Company, Limited, and increasing the capital to $1,000,000, divided into 10,000 shares of $100 each. The capital was again increased by supplementary letters patent on October 5, 1914, to $3,000,000 and on October 17, 1917, to $5,000,000, at which date all the shares were issued, the par value being $100. During the five years ended October 28, 1933, therefore, the capital of the company was $5,000,000 divided into 50,000 shares of $100 each, on which no dividends were paid. There were no bonds outstanding during the period.

Q. Throughout the entire five years, no dividends?—A. No.

Q. No bonds, and no interest on bonds?—A. No.

Q. And no interest on borrowed money?—A. No, that is true.

Q. They had a loan from the Chicago office during that period of the sum of $5,000,000?—A. Approximately.

Q. Approximately $5,000,000?—A. At one period.

Q. On which no interest was paid?—A. That is so.

Q. Will you continue?—A. In Exhibit "A" we submit a balance sheet of the company at October 28, 1933, prepared from the books of the Toronto plant and the monthly returns from the plants at Winnipeg, Edmonton, Moose Jaw, New Westminster and Moncton, without independent confirmation.

Q. Before you go farther, that balance sheet shows at that date, October 28, 1933, a surplus of $5,127,398.32?—A. That is so.

Q. And that was after they had paid back to the Chicago office the money that had been borrowed from that office?—A. Yes.

Q. The net position being left that they had this surplus in excess of the entire capital issue of the company?—A. Yes.

Q. Will you proceed?—A. Net Income: A summary of the operating results for the five years ended October 28, 1933, is submitted in Exhibit "B." We are informed that the company is controlled by Swift & Company, Chicago, although we are unable to substantiate this fact from the stock records since the capital stock is registered in the names of various individuals, and we were unable to secure information as to the terms on which it is held.

For this reason and in an endeavour to determine whether the numerous transactions between the two companies result in a loss to the Canadian company we have made an examination of the inter company account with Swift & Company, Chicago, maintained at the Toronto plant. If it were found that the Canadian company made sales to the affiliated company below the prevailing market price or purchased merchandise from them above the prevailing market price, this fact would partially explain the low percentage of net income to sales of 0·07 per cent for the five years under review, but no evidence of such a condition was found in the course of our examination of the Toronto accounts.

Q. That is the five year operations of this company showed an average of net income to sales of ·07 per cent, is that correct?—A. Yes, that is so.

We are informed by the officials of the company that sales to and purchases from the various affiliated companies are made at the prevailing market price that would be used in dealing with outside purchasers or sellers. Our restricted examination, however, did not permit us to determine the facts in this connection.

In reviewing the operations consideration was given to such controllable items of cost as salaries, repairs and depreciation and adjustment of inventories which might have an important bearing on the net income of the company as reported.

No items of sufficient relative importance were found to warrant adjustment of the earnings, but as our examination was restricted to the Toronto and Edmonton plants we are unable to say definitely that no such adjustments are required. Particular attention is directed to our remarks later on in this report regarding repairs and renewals.

The following comment is submitted on certain items included in the operating statement.

Sales: The company does not maintain any form of record from which the total sales of the organization as a whole can readily be tabulated. For the purpose of the annual Dominion income tax returns the company compiles a figure which, we are informed, represents sales to the public in Canada. This figure excludes, we understand, all inter-plant and inter-departmental transfers and also all transfers to associated companies in the United States and England. In the absence of any authentic total of sales we have accepted this figure without confirmation, and on this basis we have prepared a tabulation of the sales to the public in Canada, together with the percentage which the net income bears to such sales.

If the actual sales of the organization could be determined the resulting percentage of net income to sales would be lower than that shown in the following tabulation.

Period of 52 weeks ended:	Sales	Net income	Percentage
October 28, 1933	$24,359,178 91	$400,210 36	1.64

Q. 1·64 per cent represents the percentage of net income to the sales of 1933?—A. Yes.

Q. May I just at this point ask you if that percentage in Canada compares with the percentage of Swifts in the United States? I thought you had that figure readily available?—A. We will look it up, and give it to you.

Period of 52 weeks ended:	Sales	Net income	Percentage
October 28, 1933	$ 24,359,178 91	$400,210 36	1.64
October 29, 1932	25,006,885 38	364,407 09	1.46
October, 31, 1931	33,545,009 59	517,709 25	1.54
November 1, 1930	48,472,056 03	31,678 49	0.07
November 2, 1929	50,080,518 45	574,657 37	1.15
Total	$181,463,648 36	$124,429 88	
Average for period	$ 36,292,729 67	$ 24,885 97	0.07

Inventories: We reviewed the basis of valuation used by the Toronto plant in compiling the inventories as at October 29, 1932, and October 28, 1933, and found that in general the prices were conservatively based on estimated cost or market, whichever was lower. We are informed that no material change was made in the basis of pricing inventories at the Toronto plant during the five years under review.

Q. So that throughout the five years they had accepted as a basis of inventory whichever was lower, cost or market?—A. Cost or market.

Q. And they made no such deductions as half a cent a pound as we found in Canada Packers, or any additional deductions that were found in Canada Packers?—A. No.

Q. They adopted the same principle as Wilsils?—A. Yes.

Q. In making inventory valuation?—A. Yes. No information is available at Toronto regarding the basis used in pricing the inventories at the other plants as the instructions in this connection are issued direct by the officials of Swift & Company in Chicago.

Depreciation rates: The following average rates have been used by the company in computing depreciation on fixed assets for income tax purposes during the period under review. The information was secured by us from

the income tax returns, but we have not reconciled the figures with the books except in the case of the Toronto plant.

	Per Cent
Buildings..	2·33
Machinery..	4·14
Office Furniture, Fixtures and Equipment..	10·89
Delivery and Motor Equipment..	25·36
Branch House Buildings and Equipment (The asset value on which this percentage is based includes land, the book value of which is not known)..	3·34
Other Assets..	3·93

Repairs and Renewals: We are informed that the general policy of the company is to capitalize only those expenditures which will result in a saving or produce income of an amount which can actually be calculated and which will yield at least a nominal return on the investment. All other expenditures are charged to repairs. Renewals of complete units of the plant are, we understand, charged to the depreciation reserve, but the cost of renewing a part of a unit, even when the amount involved is substantial, is charged to repairs. In order to determine the effect of this policy on the repair costs of the company we made an examination of the jobs costing $500 and over, at the Toronto plant, which were charged to repairs during the five years under review, and in the following tabulation we show the yearly totals of items which might be considered as being of a capital nature and therefore charegable to fixed asset accounts or depreciation reserves, but which actually were classified as repairs and accordingly charged against operations:

Period of 52 weeks ended:	Amount
October 28, 1933..	$ 5,113 17
October 29, 1932..	10,680 19
October 31, 1931..	40,320 32
November 1, 1930..	62,115 85
November 2, 1929..	18,633 36
Total..	$ 136,862 89
Average for period..	$ 27,372 57

Executive Salaries: The salaries paid to the executives of the company during the calendar year ended December 31, 1933, were secured from the returns made to the Income Tax Department, and in the case of salaries paid at the Toronto plant were checked with the company's salary records for the year 1933.

By the Chairman:

Q. Give us the total amount for the three?—A. For three executives, the total is $28,840.82.

Invested Capital: In Exhibit "C" we submit a statement showing the relation which the net income bears to the average invested capital during the period under review, based on the annual balance sheets and profit and loss accounts prepared by the company. The invested capital is represented by the par value of the issued capital stock, together with the accumulated surplus.

On the above basis the percentage of net income to invested capital is as follows:—

Period of 52 weeks ended:	Average invested capital	Net income	Percentage to invested capital
October 28, 1933	$ 9,927,429 60	$400,210 36	4.03
October 29, 1932	9,915,837 68	364,407 09	3.66
October 31, 1931	10,362,309 06	517,709 25	5.00
November 1, 1930	10,595,820 62	31,678 49	0.30
November 2, 1929	10,287,078 20	574,657 37	5.59
Total	$51,088,475 25	$124,429 88	
Average for period	$10,217,695 11	$ 24,885 97	0.24

By Mr. Sommerville:

Q. The fact remains that of the $10,217,695.11, of average invested capital, $5,000,000 of that represents the original capital invested?—A. Yes.

Q. As shown by the capital stock issued; and $5,127,398.32 represents accumulated profits.

Q. They had accumulated profits in excess of the original capital invested?—A. Yes.

Q. Have you got that figure that you were looking up for us as to Swifts?—A. Swifts is 2 per cent.

Q. Swifts earnings in the United States for the period of October 28, 1933?—A. That is the return.

Q. Of Swifts?—A. Yes, but all the consolidated companies.

Q. Of the Swift Company?—A. Yes.

Q. What was your answer?—A. 2 per cent.

Q. All right, will you proceed?—A. Yes.

(*b*) To determine the spread between the price paid to the producer of livestock and the price received by the packer from the sale of the various products manufactured from livestock.

In the case of the Swift Canadian Co., Limited, a large part of the company's transactions are represented by the purchase, manufacture and sale of products which are not derived from livestock. The business is divided into numerous departments, each of which is engaged in the handling of a particular product or group of related products, and the accounting records of the company are designed to conform to this division and furnish separate operating results for each department. In the case of livestock certain products pass through a number of departments and in the process, products derived from other species of livestock are combined and sold as one finished product.

The company does not maintain any records from which the spread between cost and selling price can be ascertained, but to secure approximate net gains or losses for their own information the officials have "Killing and Cutting Tests" made from time to time and by the use of estimates of the net realization from each product they arrive at the estimated gain or loss on the sale of an average live animal. In Schedule "I" we submit a summary of a typical "Killing and Cutting Test" of 150 truck hogs bought on April 11, 1934, which shows that the average loss amounted to 15·84 cents per 100 pounds of live weight. As, however, these "tests" cannot be reconciled with the actual operating results of the company we feel that they are of little, if any, value in determining the actual net loss or gain on a live animal.

For the reasons stated above we are unable to determine the spread between the price paid to the individual producer of live stock and the price received by the packer from the sale of the resulting fresh and manufactured products, and we are therefore forced to substitute for this inquiry consideration as to whether the packer receives a reasonable or an excessive return (*a*) on the capital invested and (*b*) on the sales made to the public. The information necessary

to arrive at a conclusion on these points is submitted in the section of this memorandum dealing with invested capital and sales, the average return shown being .24 per cent on invested capital and .07 per cent on sales.

By Mr. Factor:

Q. Why do you call invested capital of $5,000,000 a surplus?—A. Because that might have been drawn out by the company, but was left in.

By Mr. Sommerville:

Q. In dividends. The shareholders have that amount invested. That is your explanation?—A. Yes, it is invested in assets.

(*c*) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments (2) stockyards or markets and (3) truckers, and the percentage which each of these classes bears to the total purchases.

The above information has been secured from the Toronto and Edmonton plants in connection with what are termed by the company "Mixed Medium" hogs (excluding the following grades: No. 4, Heavy, Extra Heavy, Stags, Cripples and Shops) and for the three periods of four weeks each ended September 27, 1933, December 27, 1933 and March 28, 1934, and is summarized below.

—	Direct shipments	Stockyards or markets	Truckers	Test lots, etc.
	$ cts.	$ cts.	$ cts.	$ cts.
Toronto—				
4 weeks ended Sept. 27, 1933*	9 83	9 49	9 44	9 74
" " Dec. 27, 1933*	8 86	8 93	8 60	8 36
" " Mar. 28, 1934*	12 56	12 33	12 07	12 39
	%	%	%	%
4 weeks ended Sept. 27, 1933†	55·3	29·0	14·4	1·3
" " Dec. 27, 1933†	47·1	37·0	11·7	4·2
" " Mar. 28, 1934†	56·2	29·1	8·6	6·1
	$ cts.	$ cts.	$ cts.	$ cts.
Edmonton—				
4 weeks ended Sept. 27, 1933*	8 07	8 27	8 07	....
" " Dec. 27, 1933*	7 42	6 74	7 10	....
" " Mar. 28, 1934*	11 39	11 24	11 08	....
	%	%	%	%
4 weeks ended Sept. 27, 1933†	40·8	2·6	56·6	....
" " Dec. 27, 1933†	49·7	1·9	48·4	....
" " Mar. 28, 1934†	57·5	11·0	31·5	....

*Average cost per 100 pounds dressed weight not including killing and dressing expenses and before deducting value of by-products.

†Percentage of total killed.

Q. In Edmonton they get 97 per cent of their entire kill outside of the stockyards?—A. Outside of the stockyards.

Q. And only 2·6 per cent in the stockyards?—A. Yes.

The current prices paid for hogs at the Toronto plant are based on the market prices for the bacon grade with the following differentials on or off the bacon grade:

Select—Premium of $1 per head above the bacon.
Butcher—Discount of $1 per head below the bacon.
Light—Discount of $1 per head below the bacon.
Heavy—Discount of $1.50 per head below the bacon.

Extra Heavy—Discount—of $1 to $1.50 per 100 pounds below the bacon.
Sow—Discount of $2.50 per 100 pounds below the bacon.
Stags—Discount varies.
The corresponding differentials in use at the Edmonton plant are as follows:
Select—Premium of 50 cents per 100 pounds above the bacon.
Butcher—Discount of 50 cents per 100 pounds below the bacon.
Light and Shop—Discount of $1 per 100 pounds below the bacon.
Heavy—Discount of $1.25 per 100 pounds below the bacon.
Extra Heavy—Discount of $2 per 100 pounds below the bacon.
Rough—Discount of $3.50 per 100 pounds below the bacon.
Smooth Sows—Discount of $2.50 per 100 pounds below the bacon.
All other sows—Discount of $3 per 100 pounds below the bacon.
Stags—Discount varies.
Cripples—Discount of $2.50 per 100 pounds below the bacon.

From the records maintained by the company it is not possible to determine whether the company gains an additional profit through the operation of the differentials before mentioned. After the hogs are dressed and cut they lose their identity in the plant, and the product is sold at the most advantageous market price.

The average dressed cost of all classes of cattle, veal, sheep and lambs at the Toronto plant for the two weeks ended March 31, 1934, are tabulated on the following page. Prior to this period the records maintained by the company did not show the distribution of the purchases under the required headings.

—	Direct shipments	Stockyards or markets	Truckers
	$ cts.	$ cts.	$ cts.
Toronto—			
Cattle (all classes)*	9 07	8 16	6 30
Calves " *	8 30	10 21	9 13
Sheep*	4 95	7 66	5 71
Lambs*	15 80	15 88	12 53

*Average cost per 100 pounds dressed weight including estimated killing and dressing expenses and less estimated value of by-products for the two weeks ended March 31, 1934.

Q. With reference to lambs, the stockyard lambs cost $3.35 per 100 pounds more than the truckers?—A. Yes.

Q. And they paid for stockyard sheep $1.95 per 100 pounds more than for truckers?—A. Yes.

Q. And $1.08 per 100 pounds more for stockyard calves than for trucker calves?—A. Yes.

Q. And for cattle of all classes, $1.86 per 100 more?—A. Yes.

Q. Will you continue?—A. Yes.

PERCENTAGE OF TOTAL KILLED

—	Direct shipments	Stockyards or markets	Truckers
	%	%	%
Toronto—			
Cattle (all classes)†	6·0	9·1	2·9
Calves " †	18·5	73·0	8·5
Sheep†	4·2	86·9	8·9
Lambs (42·6 per cent of lambs killed were transferred from the feed lot)†	9·3	47·7	0·4

† Average cost per 100 pounds dressed weight including estimated killing and dressing expenses and loss estimated value of by-products for the two weeks ended March 31, 1934.

86332—154½

The records at the Edmonton plant are not designed to furnish the foregoing statistics relating to cattle and small stock.

Q. In every one of these cases Swifts paid the full yardage charge, or the full charge on the purchase of direct shipments of cattle, calves, sheep and lambs, as you have given us?—A. That is so.

Q. 6 cents for hogs, 10 cents for sheep and lambs, 12 cents for calves and 25 cents for cattle?—A. That is so.

Q. So that in all of these prices, whether they buy direct from the trucker or stockyards, those charges are the same?—A. Yes, that is so.

Q. And that would mean that these net amounts that are paid in the stockyards in excess would be reflected in larger amounts to the farmers?—A. Yes, that is so.

Q. Will you continue?—A. Yes.

(*d*) To determine the hourly rates of wages paid by the company, and to prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In the following tables we submit information in connection with the Toronto and Edmonton plants showing the number and percentage of the company's employees, not including office clerks, engaged at various hourly and weekly rates for the week ended March 24, 1934. In the case of the Toronto plant the wage rates include the regular bonuses, but the rates for the Edmonton plant represent the basic rates only aggregating $5,372.67, the bonuses amounting to $212.39 having been excluded.

Q. When you are referring to bonuses, just tell us what you mean by that? There is a system in operation in this plant?—A. Yes, the Bedoe system.

Q. There is a system in operation in this plant known as the Bedoe system. Have you referred to that in your statement?—A. Yes.

Q. What is that system?—A. May I read this?

Q. Yes?—A. Our examination of the records relating to payrolls at the Toronto and Edmonton plants indicates that none of the company's employees are on piecework, but in a large number of departments a bonus system is in operation whereby both foremen and workmen receive a premium for units produced in excess of a predetermined standard. We note that in the departments operating under this scheme, practically every employee participates in the weekly bonus payment. We are informed that employees are guaranteed a 40-hour week and to that extent no employee is required to "stand-by" in his own time. Our examination of the payrolls over a period did not disclose any evidence to the contrary.

By the Chairman:

Q. Before you leave that: the schedule which I have before me shows an hourly rate, and I notice that there is only about 3 per cent of the employees who are paid less than 30 cents an hour. Now, in that statement which you are speaking of, does this 30 cents an hour include the bonus?—A. These figures do include the bonus, yes.

Q. They include the bonuses?—A. Yes.

Q. Quite?

Mr. SOMMERVILLE: In other words, the wage scale here appears to be higher than any of the other plants you have examined; that is, Swifts.

The CHAIRMAN: There is a smaller number, with the exception of Hunnisett's, of employees in the lower paid categories.

By Mr. Sommerville:

Q. Yes, I see your average for the Toronto plant is 43¼ cents per hour, and the Edmonton plant is 37 cents per hour, not including the bonus in the Edmonton plant; is that correct?—A. Yes, that is correct.

Mr. FACTOR: The weekly wage at Toronto averages $18.31—no, you have not got the average.

The CHAIRMAN: The weekly list is down below that.

By Mr. Sommerville:

Q. That is the weekly rates and the bonuses?—A. No, the average on that would not be very informative.

Mr. SOMMERVILLE: If you will just copy the rates at this point, Mr. Reporter.

Tables of rates follow:

TORONTO

Hourly Rates and Bonus	Number of Employees	% of Total
23½c	2	·37%
24	1	·18
25¼	1	·18
25¾	1	·18
27	1	·18
27½	1	·18
28½	1	·18
29	3	·55
29¼	2	·37
30	3	·55
31–35	71	13·01
36–40	112	20·51
41–45	104	19·05
46–50	63	11·54
51–55	41	7·51
56–60	12	2·20
61–65	16	2·93
66–70	8	1·47
71–75	1	·18
76 and over	2	·37

Weekly Rates and Bonus	Number of Employees	% of Total
$12.54	3	·55
17.82	1	·18
18.86	1	·18
19.50	1	·18
19.80	4	·73
20.01 to 25.00	38	6·96
25.01 to 30.00	21	3·85

EDMONTON

Hourly Rates and Bonus	Number of Employees	% of Total
$30.01 to $35.00	15	2·75
35.01 to 40.00	5	·92
40.01 to 45.00	3	·55
45.01 to 50.00	3	·55
50.01 to 55.00	1	·18
55.01 to 60.00	2	·37
60.01 to 65.00	1	·18
65.01 to 70.00	1	·18

EDMONTON—*Concluded*

Hourly Rates not Including Bonus	Number of Employees	% of Total
25 c.	7	2·20%
27½	3	·94
28½	34	10·66
30	44	13·79
31–35	73	22·89
36–40	61	19·12
41–45	33	10·34
46–50	15	4·70
51–55	4	1·25
56–60	3	·94
61–65	4	1·25
66–70	9	2·82

Weekly Rates not including Bonus	Number of Employees	% of Total
$12.00–$13.00	5	1·58
13 01– 14 00	1	·31
14.01– 15 00	1	·31
15.01– 16.00	2	·63
16.01– 17.00	2	·63
17.01– 18.00	2	·63
20 01– 25 00	15	4·70
30.01– 35.00	1	·31

The average hourly rates, including bonus, paid to all employees of the Toronto plant who are engaged on an hourly basis for the weeks ended March 24, 1934 and October 7, 1933, were 43¼ cents and 38½ cents respectively. The average base rate, not including bonus, paid to the same class of employee at the Edmonton plant for the week ended March 24, 1933, was 37 cents per hour.

At the Toronto plant the basis of employment for foremen is a 50 hour week and for workmen a 48 hour week. An examination of the payrolls for the weeks ended October 7, 1933, December 2, 1933 and March 24, 1934, discloses that, subject to a general increase of ten per cent on October 7, 1933, the rates were substantially the same as those given in the foregoing tabulation.

By Mr. Factor:

Q. Has there been any reduction in wages during the last three years?—A. I cannot say for certain.

By Mr. Sommerville:

Q. There was, at any rate, an increase in October 1933?—A. In October 1933.

By Mr. Kennedy (Peace River):

Q. Can you give us the total salary?—A. Of all, or executives.

Q. Both?—A. We have given you the executives.

Q. You have?—A. Yes, I have not the office staff.

By Mr. Sommerville:

Q. Then, with respect to the other plant examined, Hunnisett; this is a small plant recently built at Toronto?—A. Yes. My memorandum in connection with this plant is as follows:

MEMORANDUM RE F. HUNNISETT, JR.

In the following paragraphs we submit certain information prepared from the certified accounts of the auditors of F. Hunnisett, Jr., from the books and records and from information obtained by us from the management, without independent confirmation of the accounts.

The scope of our investigation, which is outlined in general terms in the Resolution of Parliament, may be divided into the following specific enquiries.

(*a*) To ascertain the Net Income earned on the capital invested in the business after eliminating extraneous charges or credits to operations, if any.

(*b*) To determine the spread between the price paid to the producer of live stock and the price received by the Packer from the sale of the various products manufactured from live stock.

(*c*) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments (2) stockyards or markets, and (3) truckers, and the percentage which each of these classes bears to the total purchases.

(*d*) To determine the hourly rates of wages paid by the Company and prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In support of the information included in the memorandum we submit the following statements:

Exhibit "A"—Balance Sheet as at December 31, 1933.

Exhibit "B"—Condensed Statement of Operations for the year ended December 31, 1933.

Exhibit "C"—Statement showing percentage of Net Income to Invested Capital for the year ended December 31, 1933.

(*a*) To ascertain the Net Income earned on the capital invested in the business after eliminating extraneous charges or credits to operations, if any.

Capital:—The proprietor's capital as at December 31, 1932, is shown in the audited accounts as $7,216.24, from which should be deducted an overdraft in his current account of $1,124.48, making the proprietor's equity $6,091.76 at December 31, 1932. There was, however, a liability to Bankers at that date amounting to $121,239.45 which amount was secured to the Bank by a pledge of the assets of the business and a guarantee of the proprietor supported by his personal securities.

In Exhibit "A" we submit a Balance Sheet of the business at December 31, 1933, based on the audited Balance Sheet submitted to the proprietor.

Net Income:—A condensed statement of the operations for the year ended December 31, 1933, is submitted in Exhibit "B".

In reviewing the operations consideration was given to such controllable items of costs as salaries, repairs and depreciation and adjustment of inventories which might have an important bearing on the Net Income of the business, as reported.

No items of sufficient relative importance were found, however, to warrant adjustment of the earnings.

The following comment is submitted on certain items included in the operating statement:

Sales.—The sales for the year amounted to $1,180,511.75, the Net Income being $2,167.84, or ·18 of 1 per cent of the sales.

Inventories.—The inventories are stated to be valued at estimated market price and the basis of valuation appears to be the same at the commencing and closing dates.

Depreciation.—Depreciation in the amount of $4,440 was set up on the books as at December 31, 1933, the basis of calculation being approximately at the following rates:—

	Per cent per annum
Buildings	2
Machinery and equipment	10
Plant fixtures	10
Office furniture and fixtures	7½
Automobiles and trucks	16½

Repairs and Renewals.—The total expenditure on repairs and renewals during the year under review amounted to $1,878.27, which does not appear to be excessive.

Executive Salaries.—The total drawings of the proprietor during the year under review amounted to $8,600, which amount is shown in the accounts as "Management Salary".

Invested Capital.—In Exhibit "C" we submit a statement showing the relation which the Net Income bears to the average invested capital during the year ended December 31, 1933, based on the annual Balance Sheets and Profit and Loss Account as certified by the auditors.

On this basis the percentage of Net Income to Capital is as follows:—

	Average invested capital	Amount	Percentage to invested capital
Year ended December 31, 1933	$8,913 31	$2,167 84	24.32

In this connection it should be noted that the proprietor has borrowed a substantial amount from his Bankers to be used as working capital in the business, which amount if advanced by himself would be included as Invested Capital in determining the percentage which the Net Income earned represents on the Invested Capital.

(*b*) To determine the spread between the price paid to the producer of live stock and the price received by the packer from the sale of the various products manufactured from live stock.

In the case of F. Hunnisett, Jr., the transactions are represented by the purchase of live stock, the killing of same and the sale of fresh meats to retail stores, so that the spread is represented by the difference between the price paid to the producer and the selling price. This spread, however, covers all the products handled by the business and the records of the business are not designed to show the spread on individual commodities.

In common with other packing establishments, F. Hunnisett, Jr., does not maintain a cost system which would enable the actual cost of individual products to be determined.

In the following summary we submit particulars of the average selling price per hundred pounds of product sold during the year in comparison with the average dressed cost per hundred pounds after allowing for the estimated value of by-products produced.

—	Beef	Calves	Sheep and Lambs
	$ cts.	%	%
Average Selling Price per 100 pounds	7 44	8·92	12·27
Average Dressed Cost per 100 pounds	6 75	7·77	11·17
Spread between Average Selling Price and Average Dressed Cost per 100 pounds	0 69	1·15	1·10
Percentage of Spread to Average Dressed Cost	10·22%	14·93%	9·85%

The above figures do not include the costs of killing, cutting or handling.

The following table shows the average cost per one hundred pounds live weight of the purchases of beef, calves, sheep and lambs during the months of December, 1933, and February, 1934.

	Average Cost per 100 Pounde Live Weight		
	Beef	Calves	Sheep and Lambs
	$ cts.	$ cts.	$ cts.
December 1933	4 80	5 91	6 59
February 1934	5 00	7 76	7 82

The operations of F. Hunnisett, Jr., are restricted to the above classes of live stock, and do not include the handling of hogs.

(*c*) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments, (2) stockyards or markets, and (3) truckers, and the percentage which each of these classes bears to the total purchases.

In the case of F. Hunnisett, Jr., all purchases are made through the stockyards, and the following information has been secured in connection with beef and small stock for the year ended December 31, 1933:

	Average Dressed Cost per 100 pounds		
	Beef	Calves	Sheep and Lambs
Year ended December 31, 1933	$ 6 75	$ 7 77	$ 11 17

(*d*) To determine the hourly rates of wages paid and to prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In the following table we submit information showing the number and percentage of the employees engaged at the various hourly and weekly rates current during the month of March, 1934.

Hourly Rate	Number of Employees	Per cent of Total
35 cents	4	10·52
40 "	2	5·26
47 "	1	2·63
49½ "	1	2·63
50 "	2	5·26
60 "	1	2·63
63 "	4	10·52

Weekly Rate	Number of Employees	Per cent of Total
$10.00	1	2·63
13.00	1	2·63
15.00	1	2·63
17.00	1	2·63
18.00	4	10·52
20.00	3	7·90
22.00	2	5·26
22.50	1	2·63
23.50	1	2·63
24.00	1	2·63
25.00	5	13·18
26.00	2	5·26

None of the employees are on piecework or under any bonus system, and we are informed that no employee is required to "stand-by" in his own time. Our examination of the payrolls over a period did not disclose any evidence to the contrary.

The basis of employment is a 50-hour week and an examination of the payrolls over a period discloses that the rates in force appear to have been uniformly maintained.

Exhibit "A"

F. HUNNISETT, Jr.

Balance Sheet as at December 31, 1933

Assets

Cash		$ 300 00
Accounts Receivable		61,537 76
Inventory of Beef and Saleable Commodities	$ 42,452 59	
Inventory of Stores and Supplies	1,841 65	
		44,294 24
		106,132 00
Real Estate	11,092 87	
Buildings	69,608 43	
Machinery and Equipment	19,761 74	
Fixtures	5,968 76	
Office Furniture	1,588 70	
		108,020 50
Automobiles and Trucks		5,828 53
Prepaid Insurance		833 16
Total		$ 220,814 19

Liabilities

Dominion Bank—Overdraft		$ 65,727 58
" Notes Payable		75,000 00
		140,727 58
Outstanding Cheques	$ 14,950 71	
Accounts Payable	4,504 23	
		19,454 94
Customers' Deposits		1,550 00
F. Hunnisett, Jr.		2,350 78
Accrued Interest and Charges		1,126 87
		165,210 17
Mortgage Payable		40,000 00
Reserves:		
For Depreciation of Buildings	1,320 00	
" Machinery	1,800 00	
" Fixtures	600 00	
" Furniture	120 00	
" Automobiles and Trucks	600 00	
	4,440 00	
For bad and doubtful accounts	1,779 94	
		6,219 94

LIABILITIES—*Concluded*

F. Hunnisett, Jr.—Capital:		
Balance, January 1, 1933	7,216 24	
Net Profit for twelve months ended December 31, 1933	2,167 84	
		9,384 08
Total		$ 220,814 19

EXHIBIT "B"

F. HUNNISETT, JR.

CONDENSED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1933

—	—	Percentage of Sales
	$ cts.	%
Net Sales	1,180,511 75	100·00
Cost of Goods Sold	1,094,215 89	92·69
Gross Margin	86,295 86	7·31
Operating Expenses	70,620 90	5·99
Mortgage and Bank Interest	13,507 12	1·14
	84,128 02	7·13
Net Operating Profit	2,167 84	·18

EXHIBIT "C"

F. HUNNISETT, JR.

STATEMENT SHOWING PERCENTAGE OF NET INCOME TO INVESTED CAPITAL FOR THE YEAR ENDED DECEMBER 31, 1933

—	As at December 31	
	1933	1932
	$ cts.	$ cts.
Current Assets	104,352 06	79,668 16
Current Liabilities	162,859 39	143,122 94
Net Current Assets	58,507 33	63,454 78
Fixed Assets	113,849 03	109,066 47
Deferred Charges	833 16	480 07
Tangible Assets (including Deferred Charges)	56,174 86	46,091 76
Deduct:		
Reserve for Depreciation	4,440 00	
Mortgage Payable	40,000 00	40,000 00
	44,440 00	40,000 00
Net Tangible Assets at end of Period	11,734 86	6,091 76
Net Tangible Assets at beginning of Period	6,091 76	
	17,826 62	
Average Invested Capital	8,913 31	
Net Income for Year ended December 31, 1933	2,167 84	
Percentage of Net Income to Invested Capital	24·32%	

By Mr. Sommerville:

Q. From your report it is apparent that this small independent packer with 38 employees pays an average of 47¾ cents per hour?—A. That is so.

Q. That is the highest of any plant in Canada, without exception?—A. That is so.

Q. It buys its product on the stockyards?—A. Yes.

Q. Where he pays the stockyard charges and distributes the product in competition with the largest dealers in Toronto?—A. Yes.

Mr. Factor: And he owes his banker $127,000.

Mr. Sommerville: He is good enough to get his entire capital from the bank apparently.

Now we have the report of Burns & Company Limited, which has been forwarded by the auditors from Calgary. If you would like to have the whole story complete we have it here. We will finish with Burns.

The Chairman: All right, go ahead.

Mr. Sommerville: There is no one here to present it. It has been forwarded by the auditors who made the examination, Eric Richardson & Graves, Chartered Accountants at Calgary.

Mr. Senn: If there is nobody to question on it, why not take the brief in as read.

Mr. Kennedy (*Peace River*): Is there going to be anybody here to question about it?

The Chairman: Mr. Burns advised me over the long distance telephone that he would be here on Friday.

Mr. Sommerville: It will be entered in the record.

The Chairman: I think perhaps if the committee are agreeable we could have counsel for the committee read it, and we will incorporate it in the Minutes. There are some sections perhaps, which he could pass over with us, and he could read such parts as appear to be important and we will have it then spread on the record. You will have the whole of it on the record.

Calgary, May 23rd, 1934.

Special Committee on Price Spreads and Mass Buying,
House of Commons,
Ottawa, Canada.

Dear Sirs,—In accordance with your instructions we have made an examination of the financial affairs and the cost records of Messrs. Burns and Company, Limited, Calgary, Alberta, and now submit our report with supporting statements.

Statement I.—This statement shows live and dressed weights and average cost of hogs, according to the various sources of supply, for the months of September and December, 1933, and for March, 1934; also live and dressed weights and costs of beef and small stock for the weeks ended 30th September, 30th December, 1933, and 31st March, 1934.

The information for this statement was obtained from the Daily Reports of Kill which are prepared in the office from Warm Weights Reports of stock killed as recorded in the plant by the scaler. The purchases were also checked by a test of the Stock Purchase Vouchers for the periods under review. There is no segregation of purchases of live stock according to sources of supply on the books of the Company. We, therefore, were unable to supply this information with respect to Beef and Small Stock purchases as all this stock is charged from the Company Feeding Pens. The source of supply of hog purchases is indicated on the Killing Reports from which the figures submitted were compiled.

It must be specially noted that all Hog Costs at the Calgary Plant are on a "Packer Dressed Hog" basis, i.e. Head off and Kidney and Leaf lard out.

Practically all purchases of Cattle and Cows are made in small quantities and it is impossible to correlate them with the Killing Sheets. Sheep and

Lambs are usually purchased in car lots and a considerable number are fed by the Company before going to the Plant for killing. The purchase prices of Beef and Small Stock differ from the charges made to the Plant by the cost of buying, feeding and handling. The selling price to the Plant from the Feed Lot is arrived at daily by the Plant Manager and the Livestock-Manager and is based on the market price prevailing at the date of transfer of the Stock. The profit or loss on the Feed Lot is borne by the Livestock Department.

Hogs are charged to the Plant at purchase price plus 15 cents per hundred to care for cost of buying, feeding and handling. We have prepared Statement IA showing the average purchase prices from all sources for the periods tested and the average charge to the Plant during the same periods.

The percentages of the purchases from each source of supply to the total purchases varies considerably over the various periods. This is accounted for by periodic purchases from the larger shippers and co-operative societies.

During the course of our investigation of prevailing market prices for the periods being tested, we noted that practically without exception the spread in price between the Calgary and Toronto quotations was less than the freight from Calgary to Toronto. Officials of the Burns Company advise us that this is due to purchases by Eastern Companies in the Western markets at slightly higher than prevailing Eastern market prices after deducting freight charges.

Statement II.—This statement shows the differentials at which Hogs were purchased during the months of November 1933 and March 1934. We have used Bacon Hogs as a basis and it will be noted that the differential between selects, bacons and butchers is uniform. The differential for the balance of the grades is not constant and we are informed this is governed to a great extent by market conditions on "off grades."

The figures submitted for November 1933 and March 1934 would indicate that on heavy hogs a differential of from 65 to 75 cents was in effect in November 1933 and a differential of from 75 cents to $2 was established in March 1934. In regard to sows, the corresponding figures were from 85 cents to $1.75 in November, 1933, and from $2.50 to $3 in March, 1934. There can be no question but that the Company has benefited by these increased differentials. It has been able to purchase lower grades at considerably wider spreads. The number of these lower grades purchased is, however, not very great.

It is contended by Company officials that this variation in spread is necessary in order to compensate for the fact that the market value of certain cuts and by-products does not increase in value proportionately with the price of live hogs. A larger percentage of lard is invariably obtained from low grade hogs. They also contend that the difference in differentials as shown by our statement is an extraordinary one on account of the very unusual market price variation in hogs. The low point to which hog prices fell necessitated a narrowing of the differentials in order to make the lower grades of *some* value and that the return to present spreads makes the prices now being paid more in line with the actual value of the lower grade hogs in comparison with the higher grades.

The contention of the Company officials with regard to By-Product prices appears to be borne out by the figures given on Statement VIII. It will be seen from this statement that in September 1933 with the average Dressed Cost of Bacon hogs at $8.94 per 100 pounds, Cutting and Killing Lard Fats were worth an average price of $4.49 and $3.70 per 100 pounds respectively and in March 1934 the average Dressed Cost of bacon hogs had increased to $12.07 and the By-Products decreased to $3.84 and $3.21.

We are advised that the Hogs are graded according to the regulations under the Livestock and Livestock Products Act and the differentials in force applicable to Selects, Bacons and Butchers was fixed by agreement of representatives of the Producers, Packers and Government. The differentials on lower grades are fixed by the Company.

Statement III.—In order to ascertain if bonuses or premiums are paid to certain livestock shippers a careful test of prices was made of two days in each of the months of September 1933 and March 1934. The statement shows the prices being paid on the days tested.

We are advised that the following method is being used at the Calgary stockyards:—

When a shipment of hogs is received by a Broker the various Packing Companies and Commission men are requested to submit tenders. The highest bidder receives the hogs. This price is then used as a basis for the purchase of "Roader or Trucker" shipments. Only in exceptional cases does there appear any variation in the prices being paid for "Trucker" shipments after the price is set for the day. Higher prices are, however, paid to certain large country shippers. The explanation given to us for the payment of these higher prices is that in order to assure the Company of a certain steady supply the Company have found it is necessary to pay these shippers a small premium by giving the Calgary market price F.O.B. country points, shippers weights. We understand that these higher prices are paid on only sufficient hogs to guarantee the Plant a minimum supply.

The prices given on the statement for "Shippers" are the "Off Car" prices. The hogs or cattle are purchased in the Country at Country weights but are shown on the Company's purchase vouchers at delivered weights. The shrinkage in transit averages 7 per cent. The prices shown are, therefore, slightly in excess of 107 per cent of the F.O.B. Calgary price quoted to the producer.

The pricing of Purchase Invoices is done at the Yard Office. They are checked later at the General Office before payment is made.

Statement IV.—This is a comparative statement of Dressed Cost of Hogs and Beef and the Selling Prices to Retailers for the various sales shown. The information for this statement with reference to costs was obtained from the weekly Pork Cost Sheets and Beef and Small Stock Cost Sheets, and with reference to Selling Prices from the Weekly Output Record showing the amount of each product sold and the value. The figures obtained were checked by making a comprehensive test of sales invoices for the months of September and December 1933 and March 1934. In comparing these figures of costs and selling prices cognizance must be taken of the fact that only the best animals are killed for dressed meat which will account for some of the discrepancy particularly in the case of Bulls and Cows in which types there are a considerable number of lower grades.

You will note that we have used "Shoulders and Loins" in the case of Hog Products "Sold to Retail" and "Sides" for "Beef", "Veal" and "Lamb".

The test of prices to Retailers showed the following prices for "Sides" prevailed during the periods tested:—

	Beef cents	Veal cents	Lamb cents
September, 1933	5 to 6½	3 to 6	7½ to 10
December, 1933	4 to 7	4½ to 5½	7 to 12½
March, 1934	5 to 8	6½ to 9	12 to 14

Statement IV A.—We were unable to obtain a complete list of Consumer Prices. This statement gives the prices in force as advertized in local papers, for a small number of cuts only.

Statement V.—We have supplemented this statement by showing the increase in average hourly rates, and the percentage which this increase bears to the average hourly rate in force prior to the increase. This statement does not include the salaries of the various departmental foremen. A separate statement (*V* A) is submitted giving these in detail.

Statement V B.—This statement shows the various departmental wage rates in force prior to the increase in wages on 19th March, 1934, and the scale in force after that date with the number of employees receiving wages on the new basis.

Statement V C.—This statement gives a summary of the data presented on Statement *V* B., also showing the total number of employees under wage rate classification. (The total figures of employees under each rate would indicate that the increase averages approximately 10 per cent).

Statement VI.—On account of the fact that the records of the Company do not show an analysis of the weight of product sold we were unable to obtain the weight of the Pork Products sold. We have, therefore, taken the total production of those commodities as a basis of our comparison. The value of the sales was extracted from the Monthly Sales Recapitulations. The total value of Export Sales was obtained from the Summary of Export Sales to which the Export Account Sales were tested.

The variance in the percentage of quantities and amount is accounted for by the fact that the sales value of Export Sales is the C.I.F. value and only the better cuts of hogs are shipped to the Export Markets.

Statement VII.—This statement gives a monthly comparison between the high price paid for Hogs and the high price for A.C. Hams in Great Britain for the period from November, 1932, to March, 1933, inclusive. The high price received for Hogs was obtained by a check of the purchase invoices for the period. We were unable to obtain the invoices for December, 1932.

The high prices for A.C. Hams were obtained from the confirmations of cabled Sales Reports from the Company's Liverpool agents. The exchange rate was taken at the date the sale was cabled. You will note that only the sales for the month of May, 1933, were affected by the Stabilization rate put into effect by the Dominion Government.

We have also given the percentage of the spread between the Live Cost of the Hogs and the Selling Price of the Hams, using the Live Cost as a basis.

Statement VIII.—In our comments regarding the Hog differential costs, we quoted certain figures supporting the Company's explanation of the widening of the spreads. We have, therefore, prepared statements for the months of September and December, 1933, and March, 1934, to show how these figures were ascertained. The costs shown are a summary of the Company's Weekly Pork Cost statements. You will note that the Company do not include Casings and Blood as By-Products. We were advised that these were excluded on account of small value of the unprocessed casings in comparison to the processing cost and the impossibility of segregating the value of the blood as obtained from the various kinds of animals.

With reference to our examination of the financial records with particular regard to the refinancing of the Company in the year 1928, we have the following remarks to offer:

An appraisal of the assets of the Company was made early in 1928 by the Canadian Appraisal Company Limited and the report received was dated 24th March, 1928. These valuations were used as a basis for the sale of the Company by Mr. P. Burns through the Dominion Securities Corporation Ltd. to Burns and Company Ltd. A portion of the Assets were retained by Mr. P. Burns and certain Liabilities were assumed by him. We attach Statement IX which is a condensed Balance Sheet as at 31st December, 1927, showing the apportionment between Mr. P. Burns and Burns and Company Limited.

From these figures it will be seen that the net book value of P. Burns and Company amounted to $13,651,379.07 and net value of assets taken over and liabilities assumed by Mr. P. Burns was $3,406,673.27, leaving the net book value of the Assets and Liabilities taken over by Messrs. Burns and Company

Ltd. $10.244,705.80. To this amount was added the appreciation in value of the Assets as shown by the appraisal, amounting to $6.577,866.83 less General Reserve available for depreciation $1,592.858.90, net $4,985,007.93.

We submit the following figures showing the disposition of this increase:—

Purchase Price of 50,000 Common shares in P. Burns & Co., Ltd.		$ 9,671,001 35
Deduct—		
Par Value of 50,000 Common shares in P. Burns & Co., Limited	$ 5,000,000 00	
Dividend of 15% on Common stock of P. Burns & Co., Limited	750,000 00	
Surplus Account after deducting Dividend	916,679 07	
Liabilities on Ranch Real Estate assumed by Mr. P. Burns	632,164 04	
		7,298,843 11
		$ 2,372,158 24
Discount on Bonds (P. Burns & Co., Ltd.) written off		345,356 48
Commission on Preferred Shares (P. Burns & Co., Ltd.) written off		218,166 26
Sundry Accounts written off		436,477 26
Premiums on redemption of old issues of Bonds and Preferred shares		314,670 21
Adjustment *re* Hay and Grain at Ranches		51,051 00
Adjustment of Value of Fixed Assets disposed of—net		18,756 31
Carried forward		$ 3,756,635 76
New Financing—		
Discount on New Issue of Bonds and Preferred Shares		1,000,000 00
Proportion of Expenses payable by Burns & Co., Ltd		75,029 96
Adjustment *re* Bond Interest and Dividend on Preferred Shares		5,793 36
Losses applicable to periods prior to December 31, 1927—net		47,548 25
Consideration for transfer of agreement between Mr. P. Burns and Dominion Securities Corp., Ltd. (Paid by issue of 99,982 Common shares of Burns & Co., Ltd.)		100,000 00
		$ 4,985,007 93

The new Company was financed by the sale of $7,000.000 First Mortgage 5½ per cent Twenty Year Sinking Fund Bonds due 1948, $6,900,000 6 per cent Cumulative Redeemable Preferred shares, $99.997 Common shares and $3 Preferred Management shares, totalling $14,000,000. The sum of $12,900,018 was received from the sale of the above bonds and shares.

The total outstanding Funded Debt, Preferred and Common shares and Surplus of the Company before refinancing amounted to $13.651,379.07, and when the new Company was formed the Funded Debt and issued Capital totalled $14.000.000. The change of ownership, therefore, resulted in the reduction of the net book value of the assets and liabilities of the old Company by the amount taken over by Mr. P. Burns and an increase of $348,620.93 in the total Funded Debt and Capital Investment.

On account of the time consumed in completing arrangements of the refinancing and as there was no definite cut-off in the records of the Company we found it impossible to completely reconcile the schedules submitted without going to the extent of analysing fully all accounts. Time did not permit us to do this and we have, therefore, confined our examination to statements prepared by the Company's staff in conjunction with the Company's audited reports and statements. The valuations as given on the Appraisal Report were checked to our statements.

The refinancing of the Company resulted in increased Bond Interest and Preference Dividend Charges, details of which are as follows:—

		Annual Interest
P. Burns & Co., Ltd., Balance Sheet 31st December, 1927.		
First Mortgage 6½% Bonds (less redeemed)	$ 3,078,500 00	$ 200,102 50
7% Cumulative Preference shares (less redeemed)	3,906,200 00	273,434 00
Carried forward		$ 473,536 50
Burns & Co., Ltd.—		
First Mortgage 5½% Bonds	$ 7,000,000 00	$ 385,000 00
6% Cumulative Preference shares	6,900,000 00	414,000 00
		$ 799,000 00
Increase		$ 325,463 50

The increased value placed upon the Fixed Assets in the books of the new Company would naturally involve an increase in the annual provision for depreciation, thus increasing the fixed charges. Owing to the fact that lower annual rates of depreciation have been used by the new Company than were adopted by the old Company, this expected increase has not been reflected in the annual financial statements of Messrs. Burns and Company.

The following rates of depreciation were used in preparing the Company's financial statement for its fiscal year ending 31st December, 1928:—

	Per cent
Buildings:	
Calgary, Edmonton, Vancouver and Winnipeg Packing Houses	1½
Regina and Prince Albert Packing Houses	2
Other Buildings	3
Plant and Equipment:	
Packing Houses and Cold Storage	2½
Other Plants	8
Automobiles and Trucks:	
Acquired at December 31, 1927	25
Subsequent Additions	12½

No depreciation was provided in respect of Additions to Buildings and Plant during the year ended December 31, 1928, which amounted to $480,934.60 net.

We are advised that the Bondholders and Shareholders have recently approved a reorganization which will result in the cancellation of accrued Bond interest amounting to $774,457.30 and in a reduction of the Capital Stock by $4,299,300. This amount will be distributed as follows:—

Reduction in Book Value of:		
Investments in Subsidiary Companies		$ 765,068 87
Other Investments		146,198 28
Elimination of Deficit	$ 1,109,826 97	
Less Bond Interest Cancelled	774,457 30	
		335,369 67
Increase in Reserve for Depreciation		2,516,634 07
Reserved for Contingencies		536,029 11
Reduction in Stated Value of Capital Stock		$ 4,299,300 00

All of which is respectfully reported by,

ERIC RICHARDSON & GRAVES,
Chartered Accountants.

Statement I

BURNS AND COMPANY, LIMITED

Calgary Plant

LIVESTOCK COSTS

—	Month of September, 1933				Month of December, 1933				Month of March, 1934			
	Live Weight	Live Weight Percentage to Total Purchases	Dressed Weight	Dressed Cost	Live Weight	Live Weight Percentage to Total Purchases	Dressed Weight	Dressed Cost	Live Weight	Live Weight Percentage to Total Purchases	Dressed Weight	Dressed Cost
	lbs.	%	lbs.	$ cts.	lbs.	%	lbs.	$ cts.	lbs.	%	lbs.	$ cts.
Hogs—												
Shippers	918,490	50·08	600,452	9 14	1,135,420	36·63	766,192	8 40	1,036,190	37·38	703,322	12 18
Roaders	695,890	37·95	463,190	8 67	1,596,560	51·51	1,057,134	7 94	1,238,520	44·68	821,435	11 94
Stockyards	....	....	....	....	136,260	4·40	89,801	8 28	340,340	12·28	224,715	12 29
Lights and Feeders	....	....	....	....	11,720	·38	7,916	5 36	12,940	·47	9,066	10 40
Roughs	199,410	10·87	136,165	4 65	199,410	6·43	136,165	4 65	122,660	4·42	84,035	7 78
Cripples	20,140	1·10	13,727	5 48	20,140	·65	13,737	5 48	21,360	·77	14,374	9 21
	1,833,930	100·00	1,213,534	......	3,099,510	100·00	2,070,935	.	2,772,010	100·00	1,856,947	.....

	Week ended 30th September, 1933				Week ended 30th December, 1933				Week ended 31st March, 1934			
	lbs.		lbs.	$ cts.	lbs.		lbs.	$ cts.	lbs.		lbs.	$ cts.
Steers	70,120	....	38,611	4 40	10,160	.	5,169	5 90	33,478	....	17,940	7 64
Heifers	22,940	....	11,949	5 00	36,930	....	19,568	5 14	42,332	....	24,330	7 15
Bulls	7,550	....	4,090	2 80	3,080	....	1,588	2 67	7,420	....	3,941	3 03
Cows	105,387	....	57,087	3 10	10,290	....	5,027	2 97	73,818	....	39,295	5 41
Calves	39,220	....	22,370	5 15	6,570	....	3,530	5 49	57,770	....	31,865	7 37
Lambs	40,894	....	20,652	8 01	16,701	....	8,029	9 82	25,985	....	12,256	13 63
Sheep	20,584	....	9,396	4 72	2,958	....	1,324	5 03	690	....	421	5 67

Statement Ia

BURNS AND COMPANY LIMITE

Calgary Plant

COMPARATIVE STATEMENT OF LIVE COSTS AS RECORDED ON PURCHASE RECORDS AND CHARGES TO PLANT

—	As per purchase record	Charge to plant	Increase	Decrease
	per 100 lbs. $ cts.	per 100 lbs. $ cts.	$ cts.	$ cts.
Hogs—				
December 1933	5 46	5 43	....	0 03
March 1934	8 13	8 08	....	0 05
Beef—				
Steers—				
September 1933	2 03	2 42	0 39	
December 1933	3 91	3 00	....	0 91
March 1934	4 28	4 09	....	0 19
Heifers—				
September 1933	2 13	2 61	0 48	
December 1933	2 90	2 72	....	0 18
March 1934	4 10	4 11	0 01	
Cows—				
September 1933	1 47	1 68	0 21	
December 1933	1 14	1 45	0 31	
March 1934	2 57	2 88	0 31	
Bulls—				
September 1933	1 25	1 51	0 26	
December 1933	....	1 38	....	
March 1934	1 00	1 61	0 61	
Veal—				
September 1933	2 70	2 94	0 24	
December 1933	2 62	2 95	0 33	
March	3 71	4 08	0 37	
Lambs—				
September 1933	3 54	4 04	0 50	
December 1933	4 68	4 72	0 04	
March 1934	6 33	6 43	0 10	
Sheep—				
September 1933	2 15	2 15	....	
December 1933	2 07	2 25	0 18	
March 1934	3 74	3 46	....	0 28

Statement II

BURNS AND COMPANY LIMITED

Calgary Plant

HOG PURCHASE DIFFERENTIALS

Basis—Bacon

Month	Selects	Bacons	Butchers	Feeders	Light	Heavy	Sows	Rough
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
November 1933—								
2nd..........	+0 50	Basis	−0 50	−1 00	....	−0 70	−1 75	
4th..........	+0 50	....	−0 50	....	−0 65	−0 65	....	
9th..........	+0 50	....	−0 50	−0 75	....	−0 65	−1 00	
12th..........	+0 50	....	−0 50	−0 75	....	−0 65	....	
16th..........	+0 50	....	−0 50	−0 75	....	−0 65	−1 00	
							−0 85	
16th..........	+0 50	....	−0 50	−0 75	−0 65	−0 65	....	
17th..........	+0 50	....	−0 50	−0 75	....	−0 65	....	−1 50
21st..........	+0 50	....	−0 50	−0 75	−0 65	−0 65	....	
24th..........	+0 50	....	−0 50	....	−0 65	−0 65	−1 00	
30th..........	+0 50	....	−0 50	....	−0 65	−0 65	−1 00	
March 1934—								
2nd..........	+0 50	....	−0 50	−1 25	−1 00	−1 25	−3 00	−3 50
7th..........	+0 50	....	−0 50	....	....	....	−3 00	−3 50
8th..........	+0 50	....	−0 50	−1 25	....	−1 25	−2 50	
14th..........	+0 50	....	−0 50	−1 25	−1 00	....	−3 00	−3 50
14th..........	+0 50	....	−0 50	−1 25	....	−2 00	−3 00	−3 50
15th..........	+0 50	....	−0 50	−1 25	....	−1 25	−2 50	
21st..........	+0 50	....	−0 50	−1 00	....	−1 25	−3 00	
23rd..........	+0 50	....	−0 50	−1 00	−0 75	....	−3 00	
28th..........	+0 50	....	−0 50	−1 00	....	−1 25	−3 00	
29th..........	+0 50	....	−0 50	−1 00	....	....	−3 00	

Statement III

BURNS AND COMPANY LIMITED

Calgary Plant

PURCHASE PRICES LIVESTOCK

—	Shippers per 100 lbs.	Roaders or Truckers per 100 lbs.	Stockyards per 100 lbs.
	$ cts.	$ cts.	$ cts.
1st September, 1933—			
Hogs—Bacon	6 70	6 10	....
Sheep	2 75	2 50	2 50
Lambs	3 75	3 00	3 50
Steers	....	2 50	....
Heifers	....	2 50	....
22nd September, 1933—			
Hogs	6 60 6 40 6 20	5 75	....
Sheep	2 50	....	....
Lambs	3 85	3 75	....
Steers	....	....	....
Heifers	2 35	....	....
2nd March, 1934—			
Hogs	9.40 9 45	8 90	8 90
Sheep	....	....	....
Lambs	....	....	6 00
Steers	4 25	4 25 3 75 4 60	....
Heifers	....	3 75 4 50	....
28th March, 1934—			
Hogs	7 70 7 25 7 20 7 35 7 45	6 75 7 10	7 40
Sheep	....	....	4 00
Lambs	6 25 6 50	....	6 50
Steers	4 25	4 00	4 00
Heifers	....	....	....

We are advised that a break in the price on the 28th March, 1934, necessitated the changing of the price on Truckers' Hogs during the day. This is an unusual occurrence.

STATEMENT IV

BURNS AND COMPANY LIMITED

CALGARY PLANT

Comparison or Selling Price and Dressed Cost

—	Dressed Weight lbs.	Dressed Cost	Average monthly cost per 100 lbs.	Average weekly cost per 100 lbs.		Selling Price per lb. to Retailer: Shoulders	Loins	Shamrock Hams Cooked	Bacon Sliced	Back	Sides
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	cts.	cts.	cts.	cts.	cts.	cts.
Hogs—											
Month ended September 30, 1933	1,122,024	92,693 46	8 26			11	14·91	26	25	18	
31st December, 1933	1,983,195	153,354 89	7 733			10	14·75	25	25	19	
March 31, 1933	1,790,566	211,733 46	11 82			13	19·04	33	31	27·8	
BEEF—											
Steers—											
September 30th, 1933				$5 27	4 40						4·91
December 23rd and December 30th, 1933					5 90						5·61
March 31st, 1934					7 64						7·49
Heifers—											
September 30th, 1933				5 25	5 00						5·08
December 23rd and December 30th, 1933					5 14						5·24
March 31st, 1934					7 15						7·67
Bulls—											
September 30th, 1933				2 35	2 80						3·00
December 23rd and December 30th, 1933					2 67						3·00
March 31st 1934					3 03						3·50
Cows—											
September 30th, 1933				3 21	3 10						3·26
December 23rd and December 30th, 1933					2 97						4·66
March 31st, 1934					5 41						5·52
Veal—											
September 30th, 1933				5 30	5 15						5·22
December 23rd and December 30th, 1933					5 49						4·86
March 31st, 1934					7 36						7·33
Lambs—											
September 30th, 1933				11 27	8 01						7·89
December 23rd and December 30th, 1933					9 62						10·04
March 31st, 1934					13·63						13·37

We have given the Dressed Costs for the week ended 23rd December, 1933, on account of the fact that the week ended 30th December, 1933 included the holidays and the stock purchases were small.

Statement IVa

BURNS AND COMPANY LIMITED

Calgary Plant

RETAIL PRICE TO CONSUMER

—	September 1933	December 1933	March 1934
	per lb.	per lb.	per lb.
No. 1 Chain Store—	cents	cents	cents
Beef—Pot Roast	5	5	10
Prime Ribs rolled	15	13	
Veal—Shoulders	7		
Fillet	16	14	
Mutton—Leg	9	9	
Loins	6	6	
Shoulders	3	3	
Lamb—Leg	17	19	23
Loins	16		
Shoulders	8	9	13
Pork—Tenderloin	19	....	25
Back Bacon—piece	15		
Cooked Ham—Sliced	32		
No. 2 Chain Store—			
Beef—Hip Roasts	14		
Sirloin Roasts	14		
Prime Ribs	12	12	
Veal—Roasts	8	8	
Rump Roasts	12	12	
Lamb—Leg	16		
Loins	16		
Shoulders	8		
Pork—Roasts	14	12	
Back Bacon Sliced	21	23	
Cooked Ham—sliced	35		
Picnic Hams	14		

These prices obtained from advertisements in Calgary papers.

Statement V

BURNS AND COMPANY LIMITED

Calgary Plant

SCHEDULE OF PLANT WAGES

Hourly Rates	Before Increase—Week ending Feb. 17, 1934			After Increase—Week ending Mar. 24, 1934			Increase per hour	Increase percentage
	High	Low	Average	High	Low	Average		
Department	cents	cents	cents	cents	cents	cents	cents	%
Killing	53¼	25	35½	59	25	39½	4	11·26
Rough Tallow	38	25	28	38	25	29¼	1¼	4·46
Casings	$24.70	$24·70	33½	$27.20	$27.20	35¼	1¾	5·22
	48½	25		42	25			
Fertilizer	43¾	25	29¾	48½	25	31¼	1½	5·04
Sausage	38	25	28¾	38½	29	30¼	1½	5·21
Beef Cooler	40	25	32¾	44	33	37¾	5	15·26
Pork Cutting	42½	25	31	47	25	34½	3½	11·29
Offal	34¼	25	29¾	38	30	34	4¼	14·28
Lard	36¼	25	28¾	36	25	30	1¼	4·35
Butter	24·70	23·75	35*	27.20	26.15	37¼*	2¼	6·43
	36¼	26¼		40	29			
Central Shipping	38	26¼	33½	47½	29	38¾	5¼	15·29
Freezer	20.00	20.00	32	22.00	22.00	36½	4½	14·06
	40	25		44	30			
Ham Room	24.70	24.70	30¼	27.20	27.20	32½	2¼	7·05
	32½	26¼		36	29			
Shipping	42¾	30	37½	42	42	42	4½	12·00
S.P. Cellars	26.60	20.90	31	29.30	23.00	34¼	3¼	10·08
	38	25		42	25			
Trucks and Garage	30.40	30.40	40	33.45	33.45	44	4	10·00
	38	38		42	42			
Engineers and Firemen	30.00	27.21	48	33.00	29.95	49½	1½	3·12
	49½	25		54½	30			
Carpenters and Mechanics	64¾	30	47	71½	33	52	5	10·63
Stables	19.00	15.00	31¼	20.90	16.50	35	3¾	12·04
	38	38		42	42			
Stockyards	35.00	15.00	39½	38.50	16.50	41	1½	3·79
Cheese	32.89	32.89	34¼	36.20	36.20	38¾	4½	13·13
	42½	26¼		47	29			
Ice Cream	38	38	38	42	42	39¾	1¾	4·60
				19.80	19.80			
Flavor Seal	38	25	27¼	42	29	30¾	3½	12·90
Eggs	26¼	25	26	30	29	29¼	3¼	12·02
Hides	42¾	34¼	38¾	47½	38	41	2¼	5·48
Stores	27	27	27	30	30	30	3	11·11
Sack Room	27	27	27	30	30	30	3	11·11
Watchmen and Janitors	19.00	19.00	29½	20.90	20.90	34¼	4¾	16·10
	30	25		38	30			
H.O. Janitor	17.48	14.96	34½	19.25	16.50	38¼	3¾	10·86
	34¼	34¼		38	38			

High and Low Weekly Rates are also given.

* Feb. 17, G. Grimson, 47 hrs. at 20¼, old retainer, not included in calculations.
Mar. 24, G. Grimson, 31 hrs. at 22½ " " "

STATEMENT Va

BURNS AND COMPANY LIMITED

CALGARY PLANT

SCHEDULE OF PLANT FOREMEN'S WAGES

—	Before Increase Week of February 17th 1934	After Increase Week of March 24th 1934
	Weekly Rate	Weekly Rate
Andrews, W.	$ 39 75	$ 43 75
Anderson, C.	30 40	33 45
Bock, C.	37 32	41 05
Boyd, D.	40 50	44 55
Chapman, W.	32 30	35 55
Clindon, T.	37 00	40 70
Clifford, F.	40 50	44 55
Currie, A.	30 40	33 45
Gaelick, F.	32 89	36 20
Lewis, W.	37 00	40 70
McColl, J.	26 60	29 30
Murray, J.	30 40	33 45
Smith, H. J.	28 50	31 35
Weitzel, J.	30 40	33 45
Winsrich, C.	32 00	35 20
	$ 505 96	$ 556 70

Increase approximately 10%.

STATEMENT Vb

BURNS AND COMPANY LIMITED

CALGARY PLANT

Department	Week ended Feb. 17, 1934		Week ended Mar. 24, 1934	
	Rate per Hour	No. of Employees	Rate per Hour	No. of Employees
	cts.		cts.	
Killing	25	9	25	1
	27½	1	30	4
	30	2	30½	1
	33	1	36½	1
	36¼	2	40	1
	37½	1	41½	1
	38	2	42	1
	42	1	46½	1
	53¼	4	59	3
	30½	1	33	1
		24		15
Rough Tallow and Casings	25	13	25	7
	27	1	30	6
	30	1	33	1
	30½	4	34	1
	32½	1	36	1
	34¼	1	38	1
	38	2	42	1
	48½	1	$27 20	1
		24		19

BURNS AND COMPANY LIMITED—*Continued*

CALGARY PLANT—*Continued*

SCHEDULE OF PLANT WAGE RATES BY DEPARTMENTS—*Continued*

Department	Week ended Feb. 17, 1934		Week ended Mar. 24, 1934	
	Rate per Hour	No. of Employees	Rate per Hour	No. of Employees
	cts.		cts.	
Fertilizer	25	7	25	8
	30½	5	30	2
	34¼	1	34	3
	38	1	38	1
	43¾	1	40	1
	....	....	42	1
			48½	1
		15		17
Sausage and Boiled Hams	25	1	29	7
	26¼	7	30	4
	27	2	38½	1
	35	1	$27 69	1
	38	1	....	....
	$19 08	1	....	....
		13		13
Beef Coolers	25	1	33	1
	30	1	34	1
	30½	1	36	1
	32½	1	42	1
	38	1	44	1
	40	1	....	....
		6		5
Pork Cutting	25	18	25	3
	27½	1	30	12
	30	4	33	4
	30½	3	34	3
	31½	1	36	3
	32½	3	38	3
	34¼	3	40	1
	36¼	2	42	6
	38	5	44	1
	40	1	47	1
	42½	1	....	....
		42		37
Offal	25	1	30	1
	34¼	1	38	1
		2		2
Lard	25	3	25	1
	26¼	1	29	1
	32½	1	30	2
	36¼	1	36	1
		6		5
Butter	20¼	1	22½	1
	26¼	1	29	1
	27	1	30	1
	36¼	1	40	1
	$23.75	1	$26 00	1
	24 70	1	27 50	1
		6		6

BURNS AND COMPANY LIMITED—*Continued*

CALGARY PLANT—*Continued*

SCHEDULE OF PLANT WAGE RATES BY DEPARTMENTS—*Continued*

Department	Week ended Feb. 17, 1934		Week ended Mar. 24, 1934	
	Rate per Hour	No. of Employees	Rate per Hour	No. of Employees
	cts.		cts.	
Central Shipping	26¼	1	29	1
	30	1	33	1
	34¼	1	38	1
	38	2	42	2
	....	....	47½	1
		5		6
Freezers	25	4	30	2
	30½	2	34	2
	32½	2	36	2
	34¼	2	38	2
	38	1	42	1
	40	1	44	1
	$20 00	1	$22 00	1
		13		11
Ham Room	26¼	6	29	6
	27	1	30	1
	32½	1	36	1
	$24 70	1	$27 20	1
		9		9
Shipping	30	1	42	3
	38	3	....	....
	42¾	1	....	....
		5		3
S. P. Cellars	25	11	25	5
	30	2	30	6
	30½	1	33	2
	32½	1	34	1
	34¼	6	38	6
	38	3	42	3
	$20 90	1	$23 90	1
	25 60	1	29 30	1
	26	26		25
Trucks and Garage	38	8	42	8
	$30 40	1	$33 45	1
		9		9
Engineers	25	2	30	2
	36¼	3	40	3
	40	1	44	1
	42	1	46½	1
	45¼	1	50½	1
	49½	1	54½	1
	$29 71	3	$29 95	3
	28 50	1	31 35	1
	30 00	1	33 00	1
		14		14
Carpenters and Millwrights	30	1	33	1
	34	1	38	1
	38	1	42	1
	50	2	63	4
	57	4	66	1
	60	1	67½	1
	61	1	71½	1
	64¾	1	....	....
		12		10

BURNS AND COMPANY LIMITED—*Concluded*

CALGARY PLANT—*Concluded*

SCHEDULE OF PLANT WAGE RATES BY DEPARTMENTS—*Concluded*

Department	Week ended Feb. 17, 1934		Week ended Mar. 24, 1934	
	Rate per Hour	No. of Employees	Rate per Hour	No. of Employees
	cts.		cts.	
Stables	38	1	42	2
	$15 00	10	$16 50	8
	17 10	1	18 05	1
	18 00	12	19 80	11
	19 00	1	20 90	1
		25		23
Stockyards	$15 00	3	$16 50	4
	15 20	1	16 75	1
	21 93	1	24 15	1
	25 00	2	27 50	2
	35 00	1	38 50	1
		8		9
Cheese	26¼	5	29	5
	34½	1	38	1
	42½	1	47	1
	$32 89	1	$36 20	1
		8		8
Ice Cream	38	0	42	1
		....	$19 80	1
		1		2
Flavour Seal	25	4	29	8
	26¼	8	30	4
	30½	3	34	3
	34¼	1	38	1
	38	2	42	2
		18		18
Eggs	25	1	29	3
	26¾	3	30	1
		4		4
Hides	34½	1	38	1
	42¾	1	47½	1
		2		2
Stores	27	1	30	1
		1		1
Sacks	27	1	30	1
		1		1
Watchman	25	1	30	1
	30	0	38	1
	$19 00	2	$20 90	2
		4		4
Janitors	34¼	2	38	2
	$ 7 48	1	$ 8 25	1
	17 48	1	19 25	1
		4		4
Total Employees		307		282

Statement Vc

BURNS AND COMPANY LIMITED

Calgary Plant

PLANT WAGE RATES

Showing the number of Employees in each Department and the wage rates in force before and after recent wage increases.

Hourly Rates	25		26¼		27		27½		29		30		30½		31½		32½	
Department	*	*																
Killing	9	1	–	–	–	–	1	–	–	–	2	4	1	1	–	–	–	–
Rough tallow and casings	13	7	–	–	1	–	–	–	–	–	1	6	4	–	–	–	1	–
Fertilizer	7	8	–	–	–	–	–	–	–	–	–	2	5	–	–	–	–	–
Sausage	1	–	7	–	2	–	–	–	–	7	–	4	–	–	–	–	–	–
Beef coolers	1	–	–	–	–	–	–	–	–	–	1	–	1	–	–	–	1	–
Pork cutting	18	3	–	–	–	–	1	–	–	–	4	12	3	–	1	–	3	–
Offal	1	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–
Lard	3	1	1	–	–	–	–	–	–	1	–	2	–	–	–	–	1	–
Butter	–	–	1	–	1	–	–	–	–	1	–	1	–	–	–	–	–	–
Central shipping	–	–	1	–	–	–	–	–	–	1	1	–	–	–	–	–	–	–
Freezers	4	–	–	–	–	–	–	–	–	–	–	2	2	–	–	–	2	–
Ham room	–	–	6	–	1	–	–	–	–	6	–	1	–	–	–	–	1	–
Shipping	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–
S.P. cellars	11	5	–	–	–	–	–	–	–	–	2	6	1	–	–	–	1	–
Trucks and garage	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Engineers	2	–	–	–	–	–	–	–	–	–	–	2	–	–	–	–	–	–
Carpenters and millwrights	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–
Stables	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Stock yards	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Cheese	–	–	5	–	–	–	–	–	–	5	–	–	–	–	–	–	–	–
Flavour seal	4	–	8	–	–	–	–	–	–	8	–	4	3	–	–	–	–	–
Ice cream	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Eggs	1	–	3	–	–	–	–	–	–	3	–	1	–	–	–	–	–	–
Hides	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–		–
Stores	–	–	–	–	1	–	–	–	–	–	–	1	–	–	–		–	–
Sacks	–	–	–	–	1	–	–	–	–	–	–	1	–	–	–	–	–	–
Watchman	1	–	–	–	–	–	–	–	–	–	1	1	–	–	–	–	–	–
Janitor	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	76	25	32	–	7	–	2	–	–	32	14	51	20	1	1	–	10	0

Hourly Rates	33		34		34¼		35		36		36¼		37½		38		38½		40		41½		42		42½		42¾	
Department																												
Killing	1	1	–	–	–	–	–	–	–	–	2	1	1	–	2	–	–	–	–	1	–	1	1	1	–	–	–	–
Rough tallow and casings	–	1	–	1	1	–	–	–	–	1	–	–	–	–	2	1	–	–	–	–	–	–	–	1	–	–	–	–
Fertilizer	–	–	–	3	1	–	–	–	–	–	–	–	–	–	1	1	–	–	–	1	–	–	–	1	–	–	–	–
Sausage	–	–	–	–	–	–	1	–	–	–	–	–	–	–	1	–	–	1	–	–	–	–	–	–	–	–	–	–
Beef coolers	–	1	–	1	–	–	–	–	–	1	–	–	–	–	1	–	–	–	1	–	–	–	–	1	–	–	–	–
Pork cutting	–	4	–	3	3	–	–	–	–	3	2	–	–	–	5	3	–	–	1	1	–	–	–	6	1	–	–	–
Offal	–	–	–	–	1	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–	–	–	–	–
Lard	–	–	–	–	–	–	–	–	–	1	1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Butter	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–
Central shipping	–	1	–	–	1	–	–	–	–	–	–	–	–	–	2	1	–	–	–	–	–	–	–	2	–	–	–	–
Freezers	–	–	–	2	2	–	–	–	–	2	–	–	–	–	1	2	–	–	1	–	–	–	–	1	–	–	–	–
Ham room	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Shipping	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3	–	–	–	–	–	–	–	–	3	–	–	1	–
S.P. cellars	–	2	–	1	6	–	–	–	–	–	–	–	–	–	3	6	–	–	–	–	–	–	–	3	–	–	–	–
Trucks and garage	–	–	–	–	–	–	–	–	–	–	–	–	–	–	8	–	–	–	–	–	–	–	–	8	–	–	–	–
Engineers	–	–	–	–	–	–	–	–	–	–	3	–	–	–	–	–	–	–	1	3	–	–	1	–	–	–	–	–
Carpenters and millwrights	–	1	–	–	1	–	–	–	–	–	–	–	–	–	1	1	–	–	–	–	–	–	–	1	–	–	–	–
Stables	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–	2	–	–	–	–
Stock yards	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Cheese	–	–	–	–	1	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–	1	–	–	–
Flavour seal	–	–	–	3	1	–	–	–	–	–	–	–	–	–	2	1	–	–	–	–	–	–	–	2	–	–	–	–
Ice cream	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–	1	–	–	–	–
Eggs	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Hides	–	–	–	–	1	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–	–	–	1	–
Stores	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Sacks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Watchman	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–		–	–	–
Janitor	–	–	–	–	2	–	–	–	–	–	–	–	–	–	–	2	–	–	–	–	–	–	–	–	–	–	–	–
	1	11	0	14	21	–	1	–	–	9	9	1	1	–	34	22	–	1	4	7	–	1	2	33	2	–	2	–

*The first column under each rate shows the number of employees at that rate prior to the increase and the second column the number after the increase

STATEMENT Vc

BURNS AND COMPANY, LIMITED

CALGARY PLANT

PLANT WAGE RATES

PAGE 2.

Showing the number of Employees in each Department and the wage rates in force before and after recent wage increases

Hourly rates	43¾		44		45¾		46½		47		47½		48½		49½		50	
Department	*	*																
Killing	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–	–	–
Rough tallow & casings	–	–	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–
Fertilizer	1	–	–	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–
Sausage	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Beef coolers	–	–	–	1	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Pork cutting	–	–	–	1	–	–	–	–	–	1	–	–	–	–	–	–	–	–
Offal	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Lard	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Butter	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Central shipping	–	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–
Freezers	–	–	–	1	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Ham room	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Shipping	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
S. P. Cellars	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Trucks and garage	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Engineers	–	–	–	1	1	–	–	1	–	–	–	–	–	–	1	–	–	–
Carpenters and Millwrights	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2	–
Stables	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Stockyards	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Cheese	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–	–	–
Ice cream	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Flavor seal	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Eggs	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Hides	–	–	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	–
Stores	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Sacks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Watchman	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Janitor	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	1	–	–	4	1	–	–	2	–	2	–	2	1	1	1	–	2	–

Hourly rates	50½		53¼		54½		57		59		60		63		64¾		66		67½		71½		61	
Department																								
Killing	–	–	4	–	–	–	–	–	–	3	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Rough tallow & casings	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Fertilizer	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Sausage	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Beef coolers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Pork cutting	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Offal	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Lard	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Butter	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Central shipping	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Freezers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Ham room	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Shipping	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
S. P. Cellars	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Trucks and garage	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Engineers	–	1	–	–	–	1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Carpenters and Millwrights	–	–	–	–	–	–	4	–	–	–	1	–	–	4	1	–	–	1	–	1	–	1	–	1
Stables	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Stockyards	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Cheese	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Ice cream	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Flavor seal	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Eggs	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Hides	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Stores	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Sacks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Watchman	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Janitor	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	1	4	–	–	1	4	–	–	3	1	–	–	4	1	–	–	1	–	1	–	1	1	–

	17th Feb.	24th March
Total Employees—		
Hourly	257	232
Weekly	50	50
	307	282

*The first column under each rate shows the number of employees at that rate prior to the increase and the second column the number after the increase.

STATEMENT VI

BURNS AND COMPANY LIMITED

CALGARY PLANT

COMPARATIVE STATEMENT OF EXPORT AND DOMESTIC SALES TO TOTAL SALES OF PORK PRODUCTS FOR YEAR ENDED DECEMBER 31, 1933

—	Quantity	Percentage	Amount	Percentage
	lbs.	%	$ cts.	%
Domestic Sales	14,748,907	72·08	1,368,487 38	66·61
Export Sales	5,713,425	27·92	691,499 50	33·39
Total Sales	20,462,332	100·00	2,069,986 88	100·00

STATEMENT VII

BURNS AND COMPANY LIMITED

CALGARY PLANT

BACON SALES—EXPORT—HIGHEST PRICE OBTAINED IN WAREHOUSE—LIVERPOOL

Date	Cut	Price	Exchange Rate	Price per cwt.	Price per 100 lbs.	High Price Paid for Hogs during month—basis bacon hogs	Spread over Price of Hogs	Percentage of Spread to Hog Purchase Prices
		£ s. d. per cwt. No. 112		$ c.	$ c.	$ c.	$ c.	%
1932—November 25	A.C. Ham	67/	3·73½	12 512	11 17	3 25	7 92	243·3
December 2	"	67/	3·73⅞	12 50	11 16	....	....	....
1933—January 17	"	60/	3·79½	11 385	10 16	3 20	6 96	217·5
February 28	"	58/	4·05¾	11 767	10 50	3 15	7 35	233·3
March 28	"	75/	4·07⅜	15 277	13 64	5 90	7 74	131·1
April 25	"	76/	4·37	16 606	14 83	5 60	9 23	164·8
May 30	"	79/	*4·60	18 17	16 22	5 70	10 52	184·5
June 27	"	84/	4·64¼	19 498	17 40	5 80	11 60	200
July 11	"	84/	4·94½	20 768	18 54	5 85	12 69	216·9
August 29	"	82/	4·75½	19 495	17 40	6 50	10 90	167·6
September 5	"	82/	4·76⅛	19 536	17 44	6 70	10 74	160·3
October 17	"	74/	4·66½	17 26	15 41	5 65	9 76	172·7
November 28	"	80/	5·07	20 28	18 10	6 30	11 80	187·3
December 5	"	80/	5·00½	20·02	17 87	6 40	11 47	179·2
1934—January	"	90/	5·01¾	22 579	20 16	9 15	11 01	120·3
February 27	"	98/	5·07⅜	24 86	22 19	9 45	12 74	135·8
March 29	"	96/	5·09⅛	24 356	21 74	9 45	12 29	130

* Stabilization rate.

Statement VIII

BURNS AND COMPANY LIMITED

Calgary Plant

Monthly Pork Costs—September, 1933

Quantity	Class	Weight	Price	Value
			$ cts.	$ cts.
8,377	Selects	1,063,642	8 94	95,056 48
501	Roughs	114,620	5 09	5,832 03
	Shippers' Adjustment	2,510	....	....
44	Cripples	5,937	5 32	315 78
1½	Bellies off Shippers	658	12 65	83 23
	From previous month	210	8 54	17 93
8,923½		1,187,577		101,305 45
17	Held over	2,095	8 55	179 12
		1,185,482		101,126 33
	Operating Charges	....	1 00	11,854 82
8,906½				112,981 15
418½	Selects sold as Shippers	55,123	8·16	4,500 21
8,488		1,130,359		108,480 94
55	Condemned	8,335	10 04	836 59
				107,644 35
	Less Offal and Lard	....	....	14,950 88½
8,533		1,122,024		$ 92,693 46½

Distribution	Weight	Value	Average Price
		$ cts.	$ cts.
Fresh Pork Cuts	130,011	12,452 32	9 58
Provision Offal	70,024	1,348 70	1 93
Pork Trimmings	40,613	994 97	2 45
Export Meats	112,706	11,239 54	9 97
Domestic Pork Cuts	550,525	66,653 88	12 11
	903,869	92,689 41	10 25
Cutting Lard	213,551		
	1,117,420		
By-Products—			
Cutting Lard Fats	213,551	9,584 98	4 49
Offal	27,257	425 80	1 56
Killing Lard Fats	131,260	4,855 78	3 70
Grease	....	84 32½	
		14,950 88½	

Casings and Blood are not included in the above costs.

STATEMENT VIII

BURNS AND COMPANY LIMITED

CALGARY PLANT

MONTHLY PORK COSTS—DECEMBER 1933

Quantity	Class	Weight	Price	Value
			$	$ cts.
15,178	Selects	1,921,043	8 14	156,348 32
545	Roughs	136,165	4 65	6,327 70
	Shippers Adjustment	3,757	....	....
98	Cripples	13,727	5 48	752 45
	Bellies off Shippers	1,662	11 00	182 82
	Loins off Shippers	216	13 00	28 08
	Backs off Shippers	65	0 13	8 45
15,821		2,076,635		163,647 82
6½	Held over	856	8 88	76 01
		2,075,779		163,571 81
	Operating charges	....	1 00	20,757 79
15,814½				184,329 60
641½	Selects sold as Shippers	84,646	7 61	6,445 52
15,173		1,991,133	8 93	177,884 08
55	Condemned	7,938	9 15	726 64
				177,157 44
	Less Offal and Lard	....	....	23,802 55
15,118		1,983,195		153,354 89

Distribution	Weight	Value	Average price
		$ cts.	$ cts.
Fresh Pork Cuts	178,211	15,321 71	8 60
Provision Offal	141,235	2,955 96	2 09
Pork Trimmings	65,804	1,591 23	2 42
Export Meats	316,773	32,683 47	10 32
Domestic Pork Cuts	893,963	100,820 91	11 28
	1,595,986	153,373 28	9 61
Cutting Lard	393,507		
	1,989,493		
By-Products—			
Cutting Lard Fats	393,507	15,507 43	3 94
Offal	42,169½	650 56	1 54
Killing Lard Fats	232,580	7,493 38	3 22
Grease	....	151 18	
		23,802 55	

Casings and Blood are not included in the above costs.

Statement VIII

BURNS AND COMPANY LIMITED

Calgary Plant

MONTHLY PORK COSTS—MARCH 1934

Quantity	Class	Weight	Price	Value
			$ cts.	$ cts.
13,325	Selects	1,758,538	12 07	212,330 35
304	Roughs	84,035	7 78	6,535 60
	Shippers Adjustment	3,891	....	....
118	Cripples	14,374	9 21	1,324 38
	Bellies off Shippers	1,527	17 99	274 74
	Backs off Shippers	47	17 00	7 99
	Legs off Shippers	846	15 83	133 95
	Loins off Shippers	262	16 37	42 91
5	From previous month	693	12 82	88 84
13,752		1,864,213		220,738 76
1½	Held over	205	10 62	221 77
13,750½		1,864,008		220,716 99
	Operating Charges	....	1 00	18,640 08
				239,357 07
489½	Selects sold as Shippers	60,422	11 27	6,809 91
13,261		1,803,586		232,547 16
91	Condemned	13,020	13 29	1,729 73
				230,817 43
	Less Offal and Lard	....	....	19,083 96½
13,170		1,790,566		211,733 46½

Distribution	Weight	Value	Average Price
		$ cts.	$ cts.
Fresh Pork Cuts	115,121	14,847 58	12 90
Provision Offal	132,623	4,069 63	3 07
Pork Trimmings	63,182	3,871 86	6 13
Export Meats	513,945	75,095 82	14 61
Domestic Pork Cuts	663,943	113,844 37	17 15
	1,488,814	211,729 26	14 22
Cutting Lard	300,013		
	1,788,827		
By-Products—			
Cutting Lard Fats	300,013	11,528 42	3 84
Offal	44,050½	774 03	1 76
Killing Lard Fats	207,385	6,649 83	3 21
Grease	....	131 68½	....
		19,083 96½	

Casings and Blood are not included in the above costs.

Statement IX

BURNS AND COMPANY LIMITED

Calgary Plant

CONDENSED BALANCE SHEET—P. BURNS AND COMPANY LIMITED SHOWING DISTRIBUTION OF ASSETS AND LIABILITIES

Assets		Per Balance Sheet Dec. 31st 1927	Sold to Mr. Burns	Sold to Burns & Co. Ltd.
		$ cts.	$ cts.	$ cts.
Current Assets		8,599,080 34	1,014,231 03	7,584,849 31
Mortgages and Agreements for Sale Receivable		587,501 90	587,501 90	
Sinking Fund		30,319 93		30,319 93
Investments		877,730 73	255,030 26	622,700 47
Fixed Assets	$ 9,865,177 36			
Less Depreciation	3,177,767 93	6,687,409 43	2,182,074 12	4,505,335 31
Deferred Charges		617,424 57		617,424 57
Total Assets		17,399,466 90	4,038,837 31	13,360,629 59

Liabilities	Per Balance Sheet Dec. 31st 1927	Assumed by Mr. Burns	Assumed by Burns & Co. Ltd.
	$ cts.	$ cts.	$ cts.
Current Liabilities	2,972,365 66	100,000 00	2,872,365 66
Mortgages and Agreements for Sale	762,074 73	532,164 04	229,910 69
Sundry Reserves	13,647 44		13,647 44
Total Liabilities	3,748,087 83	632,164 04	3,115,923 79
Funded Debt	3,078,500 00		3,078,500 00
Capital Stock—Paid up—Preferred	3,906,200 00		3,906,200 00
Common	5,000,000 00		5,000,000 00
Rest	1,666,679 07		1,666,679 07
Total Capital and Rest	13,651,379 07		13,651,379 07
Total Liabilities and Capital	17,399,466 90	632,164 04	16,767,302 86
Net Assets sold to Mr. P. Burns		3,406,673 27	
Net Assets sold to Burns & Co. Ltd			10,244,705 80

Mr. Factor: I don't know what it means, I am sure. I received a number of complaints particularly from Toronto in reference to these preference shares. I don't know whether our committee has jurisdiction to deal with that or not.

The Chairman: There is no reason why we should not question Mr. Burns when he comes here regarding anything which appears in this statement.

Mr. Factor: I think it would be well to subpoena somebody from the Dominion Securities Corporation, which originally underwrote that issue and sold it.

The Chairman: I do not see any reason why we should not. Of course, I do not think we should make it our objective to inquire into the financial set-up, but in so far as that affects operations of the company, it is quite within our rights.

Mr. Kennedy (*Peace River*): It would seem as though the capital put in must have been put in with at least the intention of making it affect the price spreads, and in that way must have a bearing.

The Chairman: There is an important point, too; in a large concern, the effect which is shown upon the cost of the line of business.

Mr. Factor: You will remember when the motion for the bringing of this committee into being was discussed in the house, the Prime Minister did say we would have authority to investigate some of these.

The Chairman: Capital structures; quite so. There is no question about that.

Mr. Factor: Although I am not anxious to waste any time of this committee, I do feel in this particular issue of the preference shares, having received so many complaints—and I suppose many members of this committee have also—

Mr. Kennedy (*Peace River*): Yes.

Mr. Factor: I feel that we should have some one here.

The Chairman: Would you like to summon some one?

Mr. Factor: I would like to have the Dominion Securities Corporation appear hear to explain some of the pertinent facts.

The Chairman: We will ask them to appear on Friday. It is now after 5.30 and we have had a pretty strenuous day. We will adjourn until to-morrow morning at eleven o'clock.

The committee adjourned at 5.35 p.m. to meet on Thursday, May 31, at 11 a.m.

APPENDIX No. 1

Auditors' Memorandum re Canada Packers Limited

In the following paragraphs we submit certain information prepared from the certified accounts of the Company's auditors, from the books and records of the Company and from information obtained by us from the management without independent confirmation of the accounts.

The scope of our investigation, which is outlined in general terms in the Resolution of Parliament, may be divided into the following specific enquiries:

(*a*) To ascertain the Net Income earned on the capital invested in the Company after eliminating extraneous charges or credits to operations, if any.

(*b*) To determine the spread between the price paid to the producer of live stock and the price received by the Packer from the sale of the various products manufactured from live stock.

(*c*) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments (2) stockyards or markets, and (3) truckers, and the percentage which each of these classes bears to the total purchases.

(*d*) To determine the hourly rates of wages paid by the Company, and to prepare a tabulation giving the number of employees paid at each of the different hourly rates.

The accounts of Canada Packers Limited and its subsidiaries are maintained at the Head Office in Toronto, at the plants in Toronto, Montreal, Winnipeg, Hull, Peterborough and Chicago, and at the other points where branch houses, creameries and other related businesses are located. The plants receive periodical reports from the branch houses, etc. under their control and the net results so reported are incorporated in the plant books. The plants in turn submit monthly summaries of their operating results and financial position to the Head Office where the statements of the organization as a whole are consolidated. Our examination was confined to the records maintained at the Toronto and Hull plants and to certain operating statistics at the Montreal, Winnipeg and Peterborough plants. In preparing this memorandum we have also made use of certain summaries and reports on file at the Head Office.

In support of the information included in the memorandum, we submit the following statements:

Exhibit "A"—Consolidated Balance Sheet, Canada Packers Limited and its Subsidiaries, as at March 29, 1934.

Exhibit "B"—Condensed Statement of Operations for the Period from August 15, 1927, to March 29, 1934.

Exhibit "C"—Statement Showing Percentage of Net Income to Invested Capital for the Period from August 15, 1927, to March 28, 1928, and Six Years ended March 29, 1934.

Schedule "1"—Statement Showing Number of Employees and Percentage to Total Number Employed at the Toronto, Hull and Peterborough Plants for One Week in March, 1934, classified as to Hourly and Weekly Rates of Pay.

(*a*) To ascertain the Net Income earned on the capital invested in the company after eliminating extraneous charges or credits to operations, if any.

Capital.—Canada Packers Limited was incorporated under the Dominion Companies Act on August 13, 1927, with an authorized capital of 100,000 7 per cent cumulative redeemable preference shares of $100 each, and 200,000 common shares without nominal or par value. The Charter provides that the common shares shall not be issued for a considerable exceeding in the aggregate $2,000,000. At March 29, 1934, there were issued and outstanding 60,335 7 per cent cumulative redeemable preference shares of $100 each and 200,000 common shares with a stated value of $1,438,284.46, making a total capital of $7,471,784.46. The company owned as at March 29, 1934, 688 of its 7 per cent cumulative redeemable preference shares, and 698 of its common shares which are shown in the Balance Sheet at that date as investments. Preferred dividends have been paid at 7 per cent per annum from July 1, 1927, to March 31, 1934. No dividends have been paid on the common shares.

Canada Packers Limited is a holding company for investments in the shares of several wholly owned subsidiaries of which the principal are The Harris Abattoir Company, Limited, William Davies Company, Limited, Gunns Limited and Canadian Packing Company, Limited. At the inception of Canada Packers Limited the entire capital stocks of The Harris Abattoir Company, Limited, Gunns Limited and Canadian Packing Company, Limited, were acquired. The entire capital stock of The William Davies Company, Limited, was owned by William Davies Company, Inc., an American Company, and at the inception of Canada Packers Limited a majority of the shares of William Davies Company Inc. was purchased, all but six of the remaining shares being acquired subsequently. Thereafter an exchange of shares between William Davies Company Inc., and Canada Packers Limited took place whereby 60,404 Class "A" shares and 17,708 Class "B" shares of William Davies Company, Inc., were exchanged by Canada Packers Limited for 20,000 shares of The William Davies Company, Limited, leaving the remaining 10,000 shares issued by The William Davies Company, Limited, in the possession of William Davies Company, Inc. The last named company, therefore, owns 60,404 of its Class "A" shares and 17,708 of its Class "B" shares. A summary showing the consideration for and the basis upon which the shares of the various subsidiaries were acquired is shown below.

Book Value of and Consideration for Shares of Subsidiary Companies acquired as at August 15, 1927 and subsequent thereto.

Book Value of Shares acquired:		
The Harris Abattoir Company, Limited:		
Capital Stock:		
25,550 Common Shares of $100.00 each		$ 2,555,000 00
Surplus		2,117,949 69
		4,672,949 69
William Davies Company, Inc:		
Capital Stock:		
Class "A"—60,435 shares of no par value—stated value Class "B"—60,000 shares of no par value—stated value	$ 3,083,536 00	
Surplus	2,161,810 54	
		5,245,346 54
Canadian Packing Company, Limited:		
100,000 Common Shares of no par value, stated value		25,000 00
Gunns Limited and Subsidiaries:		
Capital Stock:		
3,000 Common Shares of no par value, stated value	$ 1,435,201 76	
Deficit	48,786 38	
		1,386,415 38
Total		$11,329,711 61
Consideration:		
Cash	$ 2,571,077 15	
6 per cent Second Collateral Trust Bonds	650,000 00	
66,703½ 7 per cent Cumulative Redeemable Preference Shares of $100 each	6,670,350 00	
200,000 Common Shares, without nominal or par value—stated value	1,438,284 46	
		11,329,711 61

In connection with the payment of $2,555,000 in cash to the shareholders of The Harris Abattoir Company, Limited, as part of the consideration for the acquisition of that company's shares, Canada Packers Limited borrowed $2,500,000 from its bankers and gave as security its 6 per cent First Collateral Trust 20 Year Bonds with a face value of $2,500,000. Of this loan $1,250,000 was repaid to the bank in each of the years ended March 27, 1930, and March 26, 1931.

At August 13, 1927, the inception of Canada Packers Limited, there were outstanding First Mortgage Sinking Fund six per cent Bonds of William Davies Company, Inc., and The Harris Abattoir Company, Limited, with a face value of $2,200,000 and $4,000,000 respectively, of which $79,000 and $125,000 were held by these subsidiaries. At March 29, 1934, these bond issues had been reduced to $1,350,000 for William Davies Company, Inc., and $3,242,900 for The Harris Abattoir Company, Limited, of which bonds Canada Packers Limited owned $615,200, and $1,057,400 which are shown in the Balance Sheet as investments.

The net reduction in the bonds outstanding and in the hands of the public from August 13, 1927, to March 29, 1934, amounted to $1,386,200 for William Davies Company, Inc., and $1,689,500 for The Harris Abattoir Company, Limited.

In Exhibit "A" we submit a Consolidated Balance Sheet of the company at March 29, 1934, based on the Company's tentative Balance Sheet which is subject to completion of the audit for the year ended that date.

Net Income:

A condensed statement of the operations for the seven fiscal periods from the inception of Canada Packers Limited, August 13, 1927, to March 29, 1934, is submitted in Exhibit " B ".

In reviewing the operations, consideration was given to such controllable items of cost as salaries, repairs and depreciation and adjustment of inventory values, which might have an important bearing on the Net Income of the Company, as reported.

The aggregate provision for repairs and depreciation appears to be liberal, representing as it does an amount of $6,134,288.86 for the five years ended March 29, 1934, or 51·85 per cent of the average depreciable value of the fixed assets. We submit below a tabulation of the repairs and depreciation charges for these periods.

	Repair Charges	Depreciation	Total
	$ cts.	$ cts.	$ cts.
Fiscal Year ended March 27, 1930	612,158 00	748,373 14	1,360,531 14
" " 26, 1931	465,384 00	766,950 17	1,232,433 17
" " 31, 1932	463,839 00	777,820 65	1,241,659 65
" " 30, 1933	350,165 00	748,997 01	1,099,162 01
" " 29, 1934	446,874 00	753,628 89	1,200,502 89
Total	2,338,519 00	3,795,769 86	6,134,288 86

The amounts of repair charges for the period from August 15, 1927, to March 28, 1928, and for the year ended March 27, 1929, have not been shown as the information for these periods had not been obtained up to the date of this memorandum.

If the annual provision for depreciation is maintained on the present basis it will result in the extinction of the book value of all the fixed assets, excluding real estate, within the next six and three-quarter years.

The following comment is submitted on certain items included in the operating statement:—

Sales:

In the following tabulation we summarize the Company's sales for the period under review, together with the percentage which the net income bears to the sales:—

Period	Sales	Net Income	Percentage
	$ cts.	$ cts.	
Period from August 15, 1927, to March 28, 1928	70,212,862 00	1,028,697 64	1·47
Fiscal year ended March 27, 1929	101,026,733 00	1,503,297 58	1·49
" " " 27, 1930	100,102,203 00	1,552,071 40	1·55
" " " 26, 1931	82,841,103 00	838,111 76	1·01
" " " 31, 1932	60,081,710 00	384,302 51	0·64
" " " 30, 1933	45,027,677 00	607,671 96	1·35
" " " 29, 1934	54,380,430 00	1,451,179 76	2·67
Total	513,672,718 00	7,365,332 61	1·43
Average per year	77,535,505 00	1,111,748 32	1·43

The figures for sales shown above were obtained from a statistical record of the Company which purports to show the sales to the public, but we cannot substantiate this figure owing to the fact that sales to the public and shipments to branches are combined in one amount in the Company's books of account.

Inventories:

We are informed that the inventories were valued at lower of cost or market at March 28, 1928, and that from March, 1929 to 1932, inclusive, the inventories were valued at cost less the following reserves deducted therefrom to reduce the valuation to what the Company considered a conservative basis:—

As at March 27, 1929	$586,268 95
" 27, 1930	688,618 75
" 26, 1931	686,268 95
" 31, 1932	686,268 95

On March 30, 1933 and March 29, 1934, the company changed its basis of valuation to lower of cost or market, with a further deduction of one half cent per pound on a part of the inventories of product at the main plants. Our computation of the amount of this deduction, based on the inventories of the Toronto plants at March 29, 1934 and March 30, 1933, is $80,405.97 and $63,536.22 respectively, based on a total inventory valuation of the product at the Toronto plant of $1,706,322.61 and $1,469.501.57 the deduction representing approximately 4·7 per cent and 4·3 per cent respectively. Applying the same percentages to the total value of the product at the main plants amounting to $3,932,414.49 at March 29, 1934 and $2,456,960.44 at March 30, 1933, we develop deductions of $184,823.48 and $105,649.30 for the company as a whole. In the opinion of the company's officials these deductions are warranted by conservative practice in view of the rapidly changing market prices for products.

An amount of $200,000.00, part of the General Reserve, was deducted from the total of the inventories as valued at lower of cost or market at March 30, 1933, thus making the inventory valuations $200,000.00 less than lower of cost or market. At March 29, 1934, no part of the General Reserve was used for this purpose, but a reserve of $45,414.77 carried on the books of the Chicago plant was deducted from the inventory.

Depreciation.—The following are the prevailing rates used by the company in computing depreciation on fixed assets:

> Buildings, 2½, 5 and 10 per cent; machinery, 10 per cent; delivery equipment, 25 per cent; office furniture, 10 per cent; trucks and autos, 25 per cent; creamery cans, 10 per cent.

The values on which depreciation is based are not uniform, some being cost and others appraisal values with subsequent additions at cost.

Repairs and renewals.—While the annual charges for repairs and renewals appear to be high we are informed that these expenditures are necessitated by the nature of the business.

Our examination of the accounts of the Toronto plant relating to repairs for the two years ended March 29, 1934, indicated that of a total expenditure of $341.789.00 during that period approximately $54,164.84 is in respect of charges which might be regarded as being in the nature of renewals and betterments.

Executive salaries and bonuses.—The salaries and bonuses of the five major executive officers for the year ended March 29, 1934, totalled $73,000.

Invested Capital:

In Exhibit " C " we submit a statement showing the relation which the net income bears to the average invested capital during the period under review, based on the annual Balance Sheets and Profit and Loss Accounts as certified to by the Company's auditors for the period from August 15, 1927, to March 30, 1933. For the year subsequent to March 30, 1933, we have adopted the Company's tentative Balance Sheet as at March 29, 1934, and Profit and Loss Account for the year ended March 29, 1934, both of which are subject to the completion of the audit for the year ended on that date.

On the basis of the Company's annual accounts the percentage of net income to the average invested capital is as follows:—

Fiscal year ended	Average invested capital	Net Income	
		Amount	Percentage to invested capital
	$ cts.	$ cts.	
March 29, 1934	11,928,282 79	1,451,179 76	12·17
" 30, 1933	11,637,494 49	607,671 96	5·22
" 31, 1932	11,634,800 77	384,302 51	3·30
" 26, 1931	11,578,447 09	838,111 76	7·24
" 27, 1930	11,056,261 45	1,552,071 40	14·04
" 27, 1929	9,918,379 84	1,503,297 58	15·16
Period from August 15, 1927, to March 28, 1928	8,605,676 12	1,028,697 64	*19·12
Total	76,359,342 55	7,365,332 61	
Average for period	10,908,477 51	1,111,748 32	*10·20

*Adjusted to Annual Return basis.

In the following tabulation we show the adjusted net income of the Company after the elimination of certain charges and credits which we consider arise from operations extraneous to the packing house and its related businesses and the percentage of the adjusted net income to the average invested capital of the Company.

Fiscal Year ended	Average invested capital	Adjusted Net Income	
		Amount	Percentage to invested capital
	$ cts.	$ cts.	
March 29, 1934	11,928,282 79	1,399,064 44	11·73
" 30, 1933	11,637,494 49	634,875 94	5·46
" 31, 1932	11,634,800 77	449,637 00	3·86
" 26, 1931	11,578,447 09	863,844 44	7·46
" 27, 1930	11,056,261 45	1,771,698 85	16·02
" 27, 1929	9,918,379 84	1,433,434 17	14·45
Period from August 15, 1927, to March 28, 1928	8,605,676 12	1,103,766 60	*20·52
Total	76,359,342 55	7,656,321 44	
Average for period	10,908,477 51	1,155,671 16	*10·59

*Adjusted to Annual Return basis.

In connection with the Company's major holdings in the capital stock of certain other companies which are treated as investments, the following summary shows the number of shares held and values at which they are carried on the books of the Company as at March 29, 1934, the original cost and the amounts written off the original cost:—

Name of Company	Number of shares	Book value March 29, 1934	Original cost	Amounts written off
	Common	$ cts.	$ cts.	$ cts.
Dominion Stores Limited	7,900	102,498 05	198,214 99	95,725 94
Stop and Shop Limited	6,822½	3 00	378,759 45	378,756 45
Folkard Canning Co., Ltd	439	1 00	43,900 00	43,899 00
	Capital			
Union Stockyards of Toronto, Limited	4,686	468,600 00	468,600 00	

In addition to the above investments carried in the Balance Sheet it appears that the Company owns 16,900 shares of £1 each of John Loudon and Company, Limited, a firm of meat importers of London, Eng., in respect of which we were unable to find any record of either the purchase of these shares or the income, if any, received therefrom.

At March 29, 1934, profits amounting to $191,116.22 which represent the net realized profits and losses on the purchase and sale of investments, had not been credited to surplus and remained in the accounts as a deduction from the book value of the investments.

In adddition to the foregoing the face value, $1,672,600.00, of the bonds of The Harris Abattoir Company Limited, William Davies Company, Inc., are carried in the books as $1,573,001.30, the difference, $99,598.70, representing a profit on purchases by Canada Packers Limited of bonds of its subsidiaries.

General Reserves:—In April 1928 the Company wrote up the valuation of the inventories from lower of cost or market, to cost and transferred the difference $586,268.95 to "General Reserve". From time to time additions to this reserve were made out of profits and by transfers of the surpluses in sundry minor reserves. At the end of each fiscal year from 1929 to 1932 the Company spread this reserve on the Balance Sheet as a reduction in the Inventories and Accounts Receivable and an addition to Accounts Payable. At March 30, 1933, the Company reverted to the policy of valuing the inventories at lower of cost or

market, and an amount of $615,000.00 was transferred to Profit and Loss Account from the General Reserve, which, before the transfer, amounted to $840,457.71. At March 29, 1934, the balance of the General Reserve, $225,457.71, was transferred to Profit and Loss Account.

In addition to the General Reserve the Company has other reserves of a comparatively minor amount, which it included on the Balance Sheets as deductions from the assets on which they apply or as additions to Accounts Payable.

As shown in the Balance Sheet at March 29, 1934, the Reserve for Income Tax amounted to $489,803.32, of which $430,000.00 was provided by a charge to operations during the year ended March 29, 1934. No final assessment has been received from the Income Tax Department for the fiscal years subsequent to March 27, 1930, and the Company has included in the amount of $430,000.00 a provision of $153,000.00 for adjustments in respect of depreciation and other charges which may be disallowed by the Income Tax Department.

(c) To determine the dressed cost of hogs, beef and small stock purchased through (1) direct shipments, (2) stockyards or markets, and (3) truckers, and the percentage which each of these classes bears to the total purchases.

The above information has been secured in connection with hogs for the months of September and December, 1933, and March, 1934, and is submitted in the following summary:—

	Direct Shipments	Stockyards or Markets	Truckers
Average Cost per 100 lbs. Dressed Weight			
	$ cts.	$ cts.	$ cts.
Toronto Plant:			
September, 1933	9 52	9 46	9 22
December, 1933	8 76	8 77	8 64
March, 1934	12 10	12 25	11 85
Percentage of Total Purchases			
	%	%	%
September, 1933	53 11	23 52	23·37
December, 1933	55·35	19·02	25·63
March, 1934	51·47	27·92	20·61
Average Cost per 100 lbs. Dressed Weight			
	$ cts.	$ cts.	$ cts.
Montreal Plant:			
September, 1933	9 92	10 07	9 63
December, 1933	9 25	8 92	8 93
March, 1934	12 76	12 73	12 10
Percentage of Total Purchases			
	%	%	%
September, 1933	47·98	37·78	14·24
December, 1933	65·23	28·40	6·37
March, 1934	63·91	34·75	1·34
Average Cost per 100 lbs. Dressed Weight			
	$ cts.	$ cts.	$ cts.
Winnipeg Plant:			
September, 1933	8 77	9 08	8 82
December, 1933	8 04	7 86	7 92
March, 1934	12 40	12 00	11 61
Percentage of Total Purchases			
	%	%	%
September, 1933	53·07	14·85	32·08
December, 1933	51·33	32·67	16·00
March, 1934	54·00	35·72	10·29

	Direct Shipments	Stockyards or Markets	Truckers
Average Cost per 100 lbs. Dressed Weight			
	$ cts.	$ cts.	$ cts.
Hull Plant:			
September 1933	9 83		9 39
December 1933	8 95		8 55
March 1934	12 43		12 05
Percentage of Total Purchases			
	%		%
September 1933	71·23		28·77
December 1933	74·16		25·84
March 1934	72·34		27·66

	Direct Shipments	Stockyards or Markets	Truckers
Average Cost per 100 lbs. Dressed Weight			
	$ cts.		$ cts.
Peterborough Plant:			
September 1933	9 78		9 31
December 1933	9 02		8 69
March 1934	12 72		11 87
Percentage of Total Purchases			
	%		%
September 1933	63·34		36·66
December 1933	56·68		43·32
March 1934	64·67		35·33

The prices paid for hogs are stated to be based on the market price for the bacon grade with the following differentials on or off bacon grade:—

Select—Premium of $1 per head above the bacon.

Butcher—Discount of $1 per head below the bacon.

Light—Discount of $1 per head below the bacon.

Heavy—Discount of $1.50 per head below the bacon.

Extra Heavy—Discount of $1 to $1.50 per cwt. below the bacon.

Sow—Discount of $2.50 per cwt. below the bacon.

Stag—Discount varies with the condition of the hog below the bacon.

Our examination of the purchase invoices for live stock showed that these differentials were being applied.

From the records maintained by the Company it is not possible to determine whether the Company gains an additional profit through the operation of the differentials before mentioned. After the hogs are dressed and cut they lose their identity in the plant and the price realized on the individual product cannot be determined.

Officials of the Company have stated to us that no bonuses or commissions are paid to truck operators delivering hogs or to Country Agents shipping hogs.

The average dressed cost of cattle, calves, sheep and lambs classified as to source are not presented as these costs are not comparable due to the purchases of cattle through the stockyards being generally of a higher grade than purchases from other sources. We submit below a tabulation showing the percentage which the number of head of each class of purchases bears to the total purchases

for the Toronto plant for a week in each of September and December, 1933, and March, 1934.

—	Percentage of Total Purchases		
	Direct Shipments	Stockyards or Markets	Truckers
	%	%	%
Cattle:			
September 1933	21	65	14
December 1933	30	55	15
March 1934	18	63	19
Calves:			
September 1933	11	61	28
December 1933	22	52	26
March 1934	39	45	16
Sheep:			
September 1933	5	78	17
December 1933	2	54	44
March 1934	10	59	31
Lambs:			
September 1933	13	42	45
December 1933	8	68	24
March 1934	9	89	2

(*b*) To determine the spread between the price paid to the Producer of livestock and the price received by the Packer from the sale of the various products manufactured from livestock.

In the case of Canada Packers Limited a large part of the Company's transactions are represented by the purchase, manufacture and sale of products which are not derived from livestock. The business is divided into numerous departments, each of which is concerned with the handling of a particular product or group of related products, and the accounting records of the Company are designed to conform to this division and furnish separate operating results for each department. In the case of livestock certain products pass through a number of departments and in the process, products derived from other species of livestock are combined and sold as one finished product.

In common with other packing establishments, Canada Packers Limited maintains a system of accounts which does not permit the actual cost of individual products to be determined. To secure approximate profit or loss margins for their own information the officials occasionally have "test runs" made, but for ordinary operating purposes the Company estimates its net return per 100 pounds of dressed weight of hogs on a formula, the details of which are shown below for the week ending May 12, 1934.

Details:	Per cent of 100 pounds of dressed weight	Price per pound cents	Value
Hams	19.7	19.0	$ 3 74
Bellies	14.2	19.0	2 70
Loins	16.2	17.2	2 70
Shoulders	18.6	11.0	2 05
	68.7		$11 28
Cutting credit		$1 10	
Killing credit		0 20	1 30
			$12 58
Less operating cost of hog departments, including interest at 6 per cent on the capital employed			2 20
Net return per 100 pounds dressed weight			
			$10 38

On January 22, 1934, the Company made a special test on one hog of a good type to determine in detail the weight of product which could be obtained from the hog and to determine the yields by weight from processing certain cuts of the hog in the curing and smoking operations. Particulars of this test were furnished to us by the Manager of the provision department, and based on these figures and on information secured from other employees we prepared summaries which purport to show the selling value, purchase cost and processing expenses for the weeks ended December 14, 1933, and March 29, 1934. The original computations developed abnormal estimated net profits in both these weeks, but after advising the Manager of the Provision Department of the results shown he stated that certain of the valuations, yields and processing expenses which he had originally furnished to us should be changed. After giving effect to these adjustments net losses were developed of $1.15 and 96 cents on the hog for the weeks ending December 14, 1933, and March 29, 1934, respectively, after deducting the processing expenses which include approximately 42 cents for interest at 6 per cent on the capital employed.

In our opinion test runs are of little, if any, value in determining the spread due to the impossibility of reconciling the result of the test runs made by the Company with the books of account, and to the facility with which the results of such runs can be altered as shown in the previous paragraph.

We were unable to determine the spread on sales of beef due to the Company's method of purchasing cattle in ungraded lots and subsequently grading the dressed carcasses into some forty different classes, the costs assigned to each class being determined by application of arbitrary differentials. A similar condition pertains to the purchases of small stock which are graded into seven different classes.

For these reasons we are unable to determine the spread between the price paid to the individual producer of livestock and the price received by the Packer from the sale of the resulting manufactured products, and we are forced to substitute for this inquiry consideration as to whether the Packer receives a reasonable or an excessive return (*a*) on the capital invested, and (*b*) on the sales made to the public. The information necessary to arrive at a conclusion on these points is submitted in the section of this memorandum dealing with invested capital and sales, the average return based on the net income reported by the Company being 10·20 per cent on invested capital and 1·43 per cent on sales.

(*e*) To determine the hourly rates of wages paid by the Company, and to prepare a tabulation giving the number of employees paid at each of the different hourly rates.

In Schedule "I" we submit information showing the number and percentage of the Company's employees at the Toronto, Hull and Peterborough plants engaged at the various hourly and weekly rates for one week during the month of March, 1934.

The average hourly rates paid to all employees at the Toronto plants, excluding foremen, truck drivers and others who are paid on a weekly basis, for the weeks ended March 22, 1934, and October 12, 1933, were $39\frac{3}{4}$ cents and $35\frac{3}{4}$ cents respectively.

Less than 1 per cent of the Company's employees are on piecework or under any bonus system, and we are informed that no employee is required to "stand by" in his own time.

We were unable to determine from the payroll records whether or not employees "stand by" in their own time as the hours on which employees are paid are obtained from the foreman's time books and the time clock records are only used for comparison with the time books. Furthermore, we are informed that employees are permitted to "punch" the time clocks as soon as

they enter the plant, which may be previous to the time when operations actually commence. However, in the case of the killing floor gangs, the employees are not paid for delays in the commencement of killing operations where the Company considers itself blameless for such delays. An instance of such delays, given to us by an employee of the Company, is where rail shipments of live stock arrive late through weather conditions or the fault of the railroad companies.

During the course of our examination at the Hull plant we were informed that if killing floor operations were discontinued during the morning certain employees might be released and instructed to return during the afternoon when operations would be commenced again. For example, an employee might work from 8 a.m. to 11 a.m. and from 3 p.m. to 6 p.m., and only receive payment for the six hours actually worked on the killing floor.

The basis of employment is a 48-hour week and an examination of the payrolls at the Hull and Peterborough plants discloses that the rates in force during the year ended March 29, 1934, were substantially the same as those set forth in Schedule "I." The rates of pay at the Toronto plant were increased during the week ended October 19, 1933, which increase, taken on the payroll as a whole, represented approximately 10 per cent of the rates paid prior to that date.

EXHIBIT A

CANADA PACKERS, LIMITED

The Harris Abattoir Company, Limited
Harris Abattoir (Western), Limited
Gunns, Limited
Gunn, Langlois and Company, Limited

Canadian Packing Company, Limited
William Davies Company, Inc.
The William Davies Company, Limited
Ontario Fertilizers, Limited
and their Subsidiaries.

Consolidated Balance Sheet as at March 29, 1934

ASSETS

Current Assets—		
Cash on hand and in Bank		$ 17,084 05
Government and Municipal Bonds		505,126 49
Call Loan		288,369 66
Accounts Receivable, less Reserve for losses		3,053,146 60
Inventories of packing house products, produce and supplies, including advance payments on goods purchased, goods in transit and goods on consignment, less advances by consignees		5,972,833 24
Total Current Assets		$ 9,836,560 04
Prepaid expenses		99,813 78
Sundry Advances, Deposits, Balances Receivable, and Advances to Employees for expenses, etc.		70,080 89
Investments:		
Sundry Investments and Mortgages at Book Value	$579,401 60	
Life Insurance (cash surrender value)	177,524 54	
Investments in and advances to related Companies	116,072 56	
		872,998 70
Bonds of William Davies Company, Inc., and The Harris Abattoir Company, Limited, at cost, less reserve		1,486,655 49
Cash in hands of Trustees for Bondholders		67,612 01
Land, Buildings, Leasehold, Plant and Equipment (based on appraisals 1919 to 1927)		18,962,703 18
Goodwill		4 00
Total		$31,396,428 09

LIABILITIES

Current Liabilities:		
Loans payable to Bankers (secured)		$ 420,246 25
Accounts payable		819,845 18
Reserve for Income Tax		489,803 32
Accrued Bond Interest:		
William Davies Company, Inc., Bonds	$ 33,396 99	
The Harris Abattoir Co., Ltd., Bonds	48,042 00	
		81,438 99
Dividends on Preference Shares for the nine months ended March 31, 1934, payable April 2, 1934		316,701 00
Total Current Liabilities		2,128,034 74
Funded Debt:		
Bond Issues of Subsidiary Companies:		
William Davies Company, Inc.—		
First Mortgage Sinking Fund 6% 20 Year Bonds due 1942	1,350,000 00	
The William Davies Company, Limited—6% First Mortgage Demand Gold Bond, held as collateral to the Bond Issues of William Davies Company, Inc. $4,000,000 00		
The Harris Abattoir Company, Limited—First Mortgage Sinking Fund 6% Bonds, due 1947	3,242,900 00	
		4,592,900 00
Surplus on Appraisals	5,686,547 59	
Reserve for Depreciation	6,862,579 65	
		12,549,127 24
Capital Stock:		
Authozized:		
100,000 7% Cumulative Redeemable Preference Shares with a par value of $100.00 each	10,000 000 00	
200,000 Common Shares, without nominal or par value		
Issued:		
60,335 7% Cumulative Redeemable Preference Shares with a par value of $100.00 each	6,033,500 00	
200,000 Common Shares, without nominal or par value—stated value	1,438,284 46	
		7,471,784 46
Surplus		4,654,581 65
Total		$31,396,428 09

EXHIBIT "B"

CANADA PACKERS, LIMITED

AND SUBSIDIARY COMPANIES

CONDENSED PROFIT AND LOSS ACCOUNT FOR THE SIX YEARS AND SEVEN AND A HALF MONTHS ENDED MARCH 29, 1934

—	Fiscal Year ended						Period from Aug. 15, 1927 to Mar. 28, 1928
	Mar. 29, 1934	Mar. 30, 1933	Mar. 31, 1932	Mar. 26, 1931	Mar. 27, 1930	Mar. 27, 1929	
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Net Profit after providing for Bond Interest	1,592,004 91	557,873 92	469,942 80	867,738 40	1,864,348 86	1,509,833 22	1,150,808 88
Miscellaneous Income (net): Interest on Investments	230,533 40	218,360 79	100,904 81	71,373 36	58,518 40	83,547 21	23,191 00
Profit on Sales of Property	....	1,636 60	23,591 03	....	24,077 14	36,099 85	....
Profit on Investments disposed of	58,641 45	73,439 82	....	....	....	....	....
Total Miscellaneous Income	289,174 85	293,437 21	124,495 84	71,373 36	82,595 54	119,647 06	23,191 00
Less Miscellaneous Charges: Loss on Sales of Property	....	2,483 40	....	....	....	11,182 70	....
Amounts written off Investments	....	87,155 77	69,136 13	30,000 00	249,873 00	....	78,645 32
Total Miscellaneous Charges	....	*89,639 17*	*69,136 13*	*30,000 00*	*249,873 00*	*11,182 70*	*78,645 32*
Miscellaneous Income (net)	289,174 85	203,798 04	55,359 71	41,373 36	−167,277 46	108,464 36	−55,454 32
Net Profit before providing for Income Tax	1,881,179 76	761,671 96	525,302 51	909,111 76	1,697,071 40	1,618,297 58	1,095,354 56
Provision for Income Tax	430,000 00	154,000 00	141,000 00	71,000 00	145,000 00	115,000 00	66,656 92
Net Income	1,451,179 76	607,671 96	384,302 51	838,111 76	1,552,071 40	1,503,297 58	1,028,697 64

Exhibit "C"

CANADA PACKERS, LIMITED

AND SUBSIDIARY COMPANIES

STATEMENT SHOWING PERCENTAGE OF NET INCOME TO INVESTED CAPITAL FOR THE SIX YEARS AND SEVEN AND A HALF MONTHS ENDED MARCH 29, 1934

—	Fiscal Year ended						7½ Months ended	Aug. 15, 1927
	Mar. 29, 1934	Mar. 30, 1933	Mar. 31, 1932	Mar. 26, 1931	Mar. 27, 1930	Mar. 27, 1929	Mar. 28, 1928	
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Current Assets	9,836,560 04	9,488,365 67	9,653,034 66	9,878,297 64	15,380,737 06	14,322,265 84	14,686,720 60	17,248,801 35
Current Liabilities	2,128,034 74	2,466,179 53	2,957,526 06	3,347,433 42	9,583,153 76	10,139,459 22	11,758,990 49	15,561,273 94
Net Current Assets	7,708,525 30	7,022,186 14	6,695,508 60	6,530,864 22	5,797,583 30	4,182,806 62	2,927,730 11	1,687,527 41
Prepaid Expenses and Advances	169,894 67	218,820 44	271,741 85	305,543 98	333,473 18	429,431 21	346,508 38	324,742 50
Investments in Related Companies, etc	2,427,266 20	2,321,582 95	1,929,315 16	1,695,518 83	1,698,589 25	1,929,009 80	1,518,240 62	1,622,753 34
Land, Buildings and Equipment	18,962,703 18	18,870,909 40	18,871,800 85	18,925,181 50	18,755,022 83	19,244,127 33	18,999,904 54	18,581,820 20
Tangible Assets	29,268,389 35	28,433,498 93	27,768,366 46	27,457,108 53	26,584,668 56	25,785,374 96	23,792,383 65	22,216,843 45
Deduct Reserves:								
Surplus due to Appraisals	5,686,547 59	5,686,547 59	5,686,547 59	5,686,367 19	5,685,832 67	6,142,108 32	6,142,108 32	6,142,108 32
Reserve for Depreciation	6,862,579 65	6,125,847 86	5,384,133 35	4,637,525 31	3,811,357 74	3,069,421 89	2,256,470 13	1,819,697 82
Contingent Reserves	....	....	....	....	....	....	225,490 27	....
Total Reserves	*12,549,127 24*	*11,812,395 45*	*11,070,680 94*	*10,323,892 50*	*9,497,190 41*	*9,211,530 21*	*8,624,680 72*	*7,961,806 14*
	16,719,262 11	16,621,103 48	16,697,685 52	17,133,216 03	17,087,478 15	16,573,844 75	15,168,314 93	14,255,037 31
Funded Debt:								
William Davies, Inc. 6% First Mortgage Bonds	1,350,000 00	1,500,000 00	1,625,000 00	1,750,000 00	1,875,000 00	2,000,000 00	2,037,000 00	2,200,000 00
The Harris Abattoir Company, Limited, 6% First Mortgage Bonds	3,242,900,00	3,390,900,09	3,527,900 00	3,658,400 00	3,780,400 00	3,893,400 00	3,975,000 00	4,000,000 00
Total Funded Debt	*4,592,900 00*	*4,890,900 00*	*5,152,900 00*	*5,408,400 00*	*5,655,400 00*	*5,893,400 00*	*6,012,000 00*	*6,200,000 00*
Net Tangible Assets at end of Period	12,126,362 11	11,730,203 48	11,544,785 52	11,724,816 03	11,432,078 15	10,680,444 75	9,156,314 93	8,055,037 31
Net Tangible Assets at beginning of Period	11,730,203 48	11,544,785 51	11,724,816 03	11,432,078 15	10,680,444 75	9,156,314 93	8,055,037 31	
	23,856,565 59	23,274,988 99	23,269,601 55	23,156,894 18	22,112,522 90	19,836,759 68	17,211,352 24	
Average Invested Capital	11,928,282 79	11,637,494 49	11,634,800 77	11,578,447 09	11,056,261 45	9,918,379 84	8,605,676 12	
Net Income	1,451,179 76	607,671 96	384,302 51	838,111 76	1,552,071 40	1,503,297 58	1,028,697 64	
Percentage of Net Income on Average Invested Capital	12·17%	5·22%	3·30%	7·24%	14·04%	15·16%	19·12%*	

* Adjusted to annual return basis.

Schedule "I"

CANADA PACKERS, LIMITED

Statement Showing Number of Employees and Percentage to Total Number Employed at the Toronto, Hull and Peterborough Plants for One Week in March, 1934, classified as to Hourly and Weekly Rates of Pay.

—	Toronto		Hull		Peterborough	
	Number of employees	Percentage of total	Number of employees	Percentage of total	Number of employees	Percentage of total
		%		%		%
Employees on hourly rates	1,051	88·25	101	80·80	104	78·79
Employees on weekly rates	140	11·75	24	19·20	28	21·21
	1,191	100·00	125	100·00	132	100·00
Hourly rates cts.						
15	.....	.....	22	17·60	.....	.....
17	.....	.....	5	4·00	1	0·76
18	.....	.....	2	1·60	1	0·76
19	.....	.....	3	2·40	.....	.....
20	.....	.....	1	0·80	10	7·58
22	.....	.....	.....	.....	3	2·27
23	1	0·08	.....	.....	.....	.....
25	1	0·08	16	12·80	9	6·82
26	2	0·17	1	0·80	.....	.....
26½	67	5·63	.....	.....	.....	.....
27	29	2·44	.....	.....	1	0·76
28	87	7·31	1	0·80	5	3·79
30	71	5·96	4	3·20	15	11·36
31-35	139	11·67	17	13·60	12	9·09
36-40	217	18·22	25	20·00	31	23·48
41-45	196	16·46	3	2·40	14	10·61
46-50	160	13·43	1	0·80	2	1·51
51-55	37	3·11	.....	.....	.....	.....
56-60	21	1·76	.....	.....	.....	.....
61-65	9	0·76	.....	.....	.....	.....
66-70	8	0·67	.....	.....	.....	.....
71-75	6	0·50	.....	.....	.....	.....
	1,051	88·25	101	80·80	104	78·79
Weekly rates $ c. $ c.						
7 00	1	0·08	.....	.....	.....	.....
8 00	1	0·08	.....	.....	.....	.....
11 00	2	0·17	.....	.....	.....	.....
12 00	2	0·17	.....	.....	.....	.....
13 00	1	0·08	.....	.....	.....	.....
14 00	2	0·17	.....	.....	.....	.....
14 80	.....	.....	.....	.....	5	3 79
15 00	2	0·17	.....	.....	.....	.....
16 00	.....	.....	.....	.....	1	0 76
16 50	.....	.....	.....	.....	2	1 51
18 00	1	0·08	.....	.....	3	2·27
20 00	13	1·09	1	0·80	.....	.....
20 01-25 00	36	3·02	11	8·80	5	3·79
25 01-30 00	35	2·94	10	8·00	8	6·06
30 01-35 00	15	1·27	2	1·60	4	3·03
35 01-40 00	19	1·59	.....	.....	.....	.....
40 01-45 00	9	0·76	.....	.....	.....	.....
55 01-60 00	1	0·08	.....	.....	.....	.....
	140	11·75	24	19·20	28	21·21
Period covered—week ended	Mar. 22, 1934		Mar. 21, 1934		Mar. 29, 1934	

Appendix No. 2

INVESTIGATION OF PACKING COMPANIES

Percentage of Net Income to Average Invested Capital

Company	Average for Period	Years						
		1933	1932	1931	1930	1929	1928–1929	1927–1928
	%	%	%	%	%	%	%	%
Canada Packers, Limited	10·20	12·17	5·22	3·30	7·24	14·04	15·16	19·12
Gainers Limited	9·98	8·36	7·85	7·40	14·89	12·54	....	....
Frank Hunnisett, Jr.	....	24·32	....	....	....	....	....	....
Swift Canadian Company, Limited	0·24	4·03	3·66	5·00	0·30	5·59	....	....
Wilsil Limited	a 15·42	23·67	6·45	12·17	15·14	19·80	....	....

a Invested Capital includes Bond issue of $800,000.00 as stock issued for intangible consideration.

Appendix No. 3

INVESTIGATION OF PACKING COMPANIES

Percentage of Net Income to Sales

Company	Average for Period	Years						
		1933	1932	1931	1930	1929	1928–1929	1927–1928
	%	%	%	%	%	%	%	%
Canada Packers, Limited	1·43	2·67	1·35	0·64	1·01	1·55	1·49	1·47
Gainers Limited	1·96	2·38	2·00	1·54	2·32	1·65	....	....
Frank Hunnisett, Jr	....	0·18	......	....	....	....	....	....
Swift Canadian Company, Limited	0·07	1·64	1·46	1·54	0·07	1·15	....	....
Wilsil Limited	1·47	3·17	0·22	1·07	1·25	1·47	....	....

HOUSE OF COMMONS,

Room 368, May 31, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 a.m., Hon. H. H. Stevens presiding.

Mr. Norman Sommerville, K.C., and Mr. W. W. Parry, K.C., of Toronto, appeared as counsel for the committee.

The CHAIRMAN: Order, gentlemen. The minutes merely record the witness heard and certain documents filed, including the presentation of the report of Eric, Richardson and Graves, chartered accountants, of Calgary, on the Burns situation. We will declare the minutes approved.

Mr. SOMMERVILLE: I will file as an exhibit, they not having yet been filed, the six annual reports of Canada Packers, Limited, including the balance sheet for each year.

(Six annual reports of Canada Packers, Limited, filed, marked Exhibit No. 202.)

Mr. BELL: Are there no copies of them?

Mr. SOMMERVILLE: No, there are not. Those are the only ones. They were filed by the company.

The CHAIRMAN: I might say to the committee that Mr. McLean had intended to be with us to-day, and was going to be a witness, but one of his superintendents died and is being buried to-day. He was anxious to be at the funeral, so I took the liberty of excusing him to-day, and he will be here to-morrow. If we deviate a little from the routine that we had in mind, the committee will understand the unfortunate circumstances which made it necessary.

Now, Mr. Sommerville, you were going to call Mr. Moyer. Mr. Moyer is one of the smaller packers.

Mr. SOMMERVILLE: Yes, Mr. Moyer.

ELLIS MOYER, called and sworn.

By Mr. Sommerville:

Q. Mr. Moyer, you are secretary-treasurer of Moyer Brothers, Limited?—A. Yes.

Q. And you carry on the business of pork packing at St. Catharines?—A. Yes.

Q. Your business has been carried on by your father, your brothers and yourself?—A. Yes.

Q. For a period of upwards of forty years?—A. Yes, approximately forty years.

Q. You are one of the independent packers operating in the Niagara peninsula?—A. Yes.

Q. And you sell your product through the Niagara peninsula?—A. Yes.

Q. In Hamilton, St. Catharines, Welland, Niagara Falls, and all those various centres throughout that area?—A. Yes.

Q. You wrote a letter to the Hon. Mr. Weir in April, which Hon. Mr. Weir has sent to this committee, for investigation of the matter that you referred to?—A. Yes.

Q. Will you just be good enough to read to the committee the letter you wrote, indicating what the problem was that you had to place before this committee?—A. Yes. The letter was dated April 19, 1934, and addressed to the Hon. Thomas Weir, Minister of Agriculture. It is as follows:—

> Dear Sir,—The writer who is secretary-treasurer and manager of a small pork packing firm known as Moyer Bros. Ltd., located in St. Catharines, Ontario, desires to bring to your attention directly the present position of the above firm, and conditions affecting the industry as they see it.
>
> For thirty years approximately my brothers and I have carried on a pork packing business with varying results, having many ups and downs. In the beginning we slaughtered and cured about fifty hogs per week, and this was increased as time passed until our weekly operations amounted to 325 hogs. This was the limit of our capacity. About this time all over the country, many large packing companies were being formed, followed closely by numerous companies with chains of stores, after which we could see our little packing business going, going until now it is all but gone. The same having diminished until now we are back where we started as regards volume, but are very much worse off, inasmuch as the costs of operation are about double what they were then. In other words, if we would show any profit at all on our operations based on prices being taken for pork products at present, we could pay no wages at all. Surely your department has power to adopt some measure to prevent a continuance of these conditions.
>
> We are sure that powerful interests are and have for many years manipulated the live hog prices. We also know that large competitor companies would undersell us at every turn, and in our efforts to compete, serious losses have been sustained, the same reaching such proportions as to threaten our financial standing, and if continued longer will greatly affect our credit, of which we could always honestly boast.
>
> Then on top of the killing effects of the big packers' unfair activities, was the loss to us of hundreds of independent merchant customers who were forced out by chain stores, companies with whom we could do no business, at least at a profit.
>
> These and other causes have brought the packing industry to its worst state since we have operated, and certainly not many of the small companies can survive much longer. There has been no fair competition In years, just cut-throat and nothing else.
>
> At this point I would like to bring also to your attention just one of the many evils as practised by chain stores. I am enclosing herewith display advertisements of three companies featuring butter at less than cost by at least one cent per pound.
>
> This little business of ours has been sustaining through its weekly payroll from twenty to thirty families, and since 1932, our employees, ourselves included, who at that time accepted a 40 per cent cut in wages, have been struggling desperately to keep going and make ends meet. But that was impossible for any of us.
>
> We have as a firm, never aspired to become big business men, but only wished to live and let live, but big business will not let us do even that. We now find ourselves with a small packing plant, our own capital gone through no fault of ours, and are now working on a meagre credit of $6,000 from the bank, which in addition to requiring everything we have in this world as security, would ask more.
>
> The picture we now have to look at is indeed unpleasant. We believe that as Canadian-born citizens, we have the right to appeal to you for assistance to carry on. We do not expect, of course, that you could accept all of this as true and correct without first investigating, and we do ask that immediate steps be taken to investigate our case."

Q. You submitted with that letter three advertisements that you had referred to, showing sales of butter in your city; they are dated April 13, 1934, all on the same day, of three different firms?—A. Yes.

Q. One advertises butter at cost, $28\frac{1}{2}$ cents; another offers creamery butter at $27\frac{1}{2}$ cents and the other the best creamery at 28 cents?—A. Yes.

Mr. KENNEDY (Peace River): Were they chain stores, Mr. Sommerville?

The WITNESS: Two of them.

Mr. SOMMERVILLE: Two of them were chain stores. The third is an independent.

The WITNESS: A cash and carry shop.

The CHAIRMAN: Those advertisements will be filed.

(Three advertisements, dated April 13, 1934, filed, marked Exhibit No. 203.)

By Mr. Kennedy (Peace River):

Q. Do you know where they are getting their supplies of butter from?—A. I could not answer that. I believe that in the one case it was coming from a creamery belonging to Canada Packers, at Harriston.

Q. Were they selling it lower than you could afford to manufacture it?—A. Well, the cost at that time was $28\frac{1}{2}$ cents, as I remember it. I checked on it at the time.

By Mr. Sommerville:

Q. In your letter you say, "We also know that large competitor companies would undersell us at every turn, and in our efforts to compete, serious losses have been sustained, the same reaching such proportions as to threaten our financial standing." Have you found competition of the kind that you have described throughout the Niagara peninsula?—A. Yes.

Q. With your products?—A. Yes.

Q. Has that been intensified during the last two years?—A. Very greatly.

Q. To what extent have you found that competition acting in the matter of prices? For instance, how low were they selling as compared with costs?—A. Well, our selling list would almost always be as much as 2 to 3 cents a pound higher. They would break under us as much as 3 cents in some cases.

Q. Under those circumstances, did you buy wholesale from some of these large companies?—A. Yes, there were times when we would be short of certain lines of pork products of our own manufacture and we would purchase, almost always, from Canada Packers.

Q. And on wholesale terms?—A. Yes.

Q. Then what did you find in the area in which you were selling these products to your customers, in the Niagara peninsula?—A. In many instances it came to my attention where a small retail merchant had bought the same product from Canada Packers at less money than what we paid.

Q. At less than the wholesale price that you were paying?—A. Yes.

Q. And you found this condition general throughout the Niagara peninsula, particularly during the last two years?—A. Yes.

Q. Are there other smaller packing companies that operate also in the Niagara peninsula?—A. The nearest packers are in Hamilton.

Q. That is Duffs?—A. Duffs and Fearmans, and one in Kitchener.

Q. There are two plants at Kitchener?—A. Yes.

Q. What are their names?—A. Schneiders and Dumarts.

Mr. EDWARDS: There is Stratford.

Mr. SOMMERVILLE: Yes, Stratford have Whyte & Company.

The WITNESS: Yes, Whytes of Stratford.

By Mr. Sommerville:

Q. They also operate in the Niagara peninsula?—A. Yes.

Q. What would be the average kill of these various plants?—A. I believe their weekly kill is from 1,000 to 2,000 hogs each.

Q. Each?—A. Yes.

Q. Then you find these conditions prevailing in the Niagara peninsula; you say this cut-throat competition, selling below cost, has had the effect of cutting down your business very materially?—A. Yes, undoubtedly.

Q. And that has reduced your volume back to where you began, you say?—A. Yes, we are actually back where we began.

Q. Instead of operating to capacity or to the extent of 300 or 325 head, you are now operating at what?—A. We are down to as low as 75 hogs per week.

Mr. Kennedy (Peace River): Is the suggestion that they are making special prices to the customers?

By Mr. Sommerville:

Q. Are you in a position to say whether special prices are being made to your customers?—A. Well, I don't think that they are directly aiming at us. I think it is just the general rule that they have adopted, and instructions are given to their salesmen to get business from the largest retail merchants, where they might secure the greatest volume.

By the Chairman:

Q. Of course, there is nothing venal about that. But do you allege that the practice is to go into a territory where there is competition and sell goods at a lower price than they sell the same type of goods for in a territory where there is no competition?—A. I just don't quite understand your question, Mr. Stevens.

Q. Let me put it this way: You raise the point of them underselling you—

Mr. Kennedy (*Peace River*): Cut-throat competition.

By the Chairman:

Q. Yes, cut-throat competition, and they are underselling you, but it does not necessarily follow that because they undersell you there is anything wrong; the point I am getting at is this, if they undersell you simply to put you out of business and then sell the same products elsewhere at higher prices that would be, in my estimation, evidence of unfair competition, and I am asking you: Are you alleging such a condition as that?—A. Well, it appears that way. While we have been the smallest packers in business, I believe, we have been more or less a thorn in the side of all of them inasmuch as we produce and sell a high class pork product in our own small way, and I believe that it is more or less pride on the part of the larger ones to disallow us to carry on and take business away from them as we are in a sense.

Q. You are alleging that it is competition directed against you to put you out of business really?—A. Well, it appears that way to me; it has for some time.

By Mr. Factor:

Q. I have not yet heard any specific illustration of how they accomplish that fact. You said there was one case where a retailer got some goods at a lower wholesale cost than you. What about volume as compared to the volume you purchased?—A. Well, the volume would be very much less, of course, possibly from three to five times as great as any of the retail merchants I have reference to.

Q. What about that particular retail merchant that you had reference to?—A. Well, he was probably one of the best customers available in the town. There

are several cases that I have in mind where the credit of the retail merchant was good and all the packers were putting forth their best efforts to secure his business, and while this competition I admit was not aimed at us alone it still existed, and prices were cut and cut again until the lowest quotation finally secured the business, and that has been going on for a great length of time and it applies as I say especially to some outstanding retail merchants in the city.

By Mr. Sommerville:

Q. And throughout the Niagara Peninsula?—A. Yes, some of the strongest financially and largest buyers of pork products.

Q. Now, you operate your plant very economically over there?—A. Well yes.

Q. You and your brother manage the business?—A. Yes.

Q. And you yourself go out as well and canvass the trade?—A. Yes.

Q. And your executive salaries have been cut down to a pretty low figure?—A. Well, we are about on a level with some of our employees now.

Q. And you have had some of your employees for a number of years?—A. Yes.

Q. And you have been paying on an average how much an hour?—A. Well, at present it ranges from 25 cents to 75 cents per hour; that is the range. An average would be 45 cents.

Q. An average would be 45 cents?—A. Approximately 45 cents.

Q. And maintaining those families of these men in your neighbourhood?—A. Yes.

Q. There is no other packing industry in your neighbourhood nearer than Hamilton?—A. Well, not a full fledged packing house. That is, there are two small abattoirs, but they do no curing of meat.

Q. They are like butchers?—A. Yes.

Q. Killing?—A. Yes.

Q. You do not handle any beef products?—A. We do not slaughter.

Q. You limit yourselves to the pork products?—A. Yes.

By the Chairman:

Q. And you have been in the packing business for forty years?—A. Well, it began with my father about that time and it has been carried on by the family since.

Q. And you operated successfully up to the last few years?—A. Up to, well, about three years ago I would say, after which time we have consistently shown losses.

By Mr. Ilsley:

Q. What pork packers are selling their products in the territory covered by you?—A. There are Canada Packers to start with; they are the largest; then Swift Canadian; F. W. Fearman, Hamilton; John Duff & Son, Hamilton; Dumarts Limited, Kitchener; J. M. Schneiders, Kitchener; Whyte Packing Company, Stratford, and Whyte Packing Company, Toronto.

Q. Well now, do I understand it that these eight competitors of yours bid against each other for desirable accounts?—A. Yes, that is the case.

Q. And I suppose that competition is accentuated by the depression?—A. Undoubtedly so.

Q. That seems to be the reason for the lowering of the price to the retailer, does it not, the accentuated competition between the pork packers for business in your territory?—A. Well, I can see no good can come out of it. I feel sure that they must be showing losses as well on that particular product.

By Mr. Sommerville:

Q. In that territory?—A. Yes, in that territory.

By Mr. Ilsley:

Q. I wonder what is the motive behind the competition. Is it to try and eliminate certain weak competitors, so that they can get the price in the territory up to where it would be profitable?—A. It could be that.

Q. Is it a matter of pride; you mentioned "pride"?—A. As one packer manager expressed himself to me he said: It seems to me as though the industry is in the hands of madmen. That is his idea and I fully agree, because they have been carrying on, especially in pork products, with no real object in view, nothing definite, just to get the business at any cost.

By Mr. Sommerville:

Q. At any price?—A. Yes, at any price.

By Mr. Ilsley:

Q. That applies not to one but to the whole lot of them, does it?—A. Well, my personal opinion is that that condition is forced on the other packers by the largest of them.

Q. You mean the one largest?—A. Well, yes.

By Mr. Kennedy (Peace River):

Q. That is Canada Packers?—A. Well, that is my personal opinion.

By Mr. Young:

Q. On what do you base that opinion?—A. Well, of course cases have come to my attention where they have taken prices at a ridiculously low level, prices that we all know would show a heavy loss, and then they would go out and sell a smaller merchant at the proper price; in other words, there would be a spread in one salesman's orders varying up to 3 cents a pound.

By Mr. Kennedy (Peace River):

Q. In the same territory?—A. In the same territory.

The CHAIRMAN: That is the point I was mentioning a moment ago.

By Mr. Young:

Q. Can you give us specific cases of that?—A. Well, I would not like to mention any names in the matter.

Q. We would like to have them.—A. I have an idea it would affect our position materially to do that.

By Mr. Ilsley:

Q. This difference in prices, is it based upon volume of purchase?—A. Not exactly so, in some very small quantities, for instance, half dozen lots of any one pork product, and invoices have been shown to me where they have taken the lowest price for very very small quantities just apparently with an idea to get the business.

Q. Yes?—A. That apparently was the object.

Q. Take anything rather than lose the order?—A. Yes.

By Mr. Young:

Q. It is very difficult for us to investigate those cases and very difficult for Canada Packers to answer your charge unless we know the particulars.

By Mr. Sommerville:

Q. Perhaps you might give to the committee in confidence the names of some of these persons so that we might make some inquiry with respect to same; I do not mean giving them publicly now, but hand the names in later.—A. I could do that.

By Mr. Ilsley:

Q. Does this condition of price cutting obtain generally throughout the territory served by you?—A. Yes. I cannot speak for other territories, I can only speak for the territory served by us, the territory in which we operate; that is the Niagara district.

By the Chairman:

Q. Do you contend that you are efficient and able to produce the products at a reasonably fair price?—A. Yes. As our statement would show, our overhead charges are very light. Naturally, compared with the larger, we haven't any high-paid executives.

Q. How about your production and operation costs?—A. Of course, our operating costs have increased as the volume has reduced.

Q. Quite so.—A. And as I tried to point out, for a time we tried and did keep our volume, but in so doing we sustained losses that were too great and we could not carry it on.

Q. Could you supply us with some statements, your regular statements, or some statement showing your costs and so forth? Were you here yesterday?—A. No.

Q. Well, if you could confer with Mr. Parry—Mr. Sommerville's assistant—he will indicate to you the class of statement we want, and try to supply us with a few statements.—A. Yes.

Q. A similar statement to what we had filed yesterday from other packers.—A. Yes.

By Mr. Edwards:

Q. Do you make as complete a line of pork products as Dumarts and Schneiders, for instance?—A. No we do not. Pork products, as far as that was concerned, we practically do, but they make a great many lines, various lines of sausage that we do not make.

Q. Are these salesmen that they have on a commission as well as a salary basis?—A. I do not think so. I believe the Swift Canadian Company offer bonuses for certain volume.

Q. At the end of the year?—A. Yes.

By Mr. Kennedy (Peace River):

Q. Has there been any improvement in condition since the price of hogs tightened up?—A. There was a difference in January, just following the first of the year when the price of hogs had gone up very sharply, and at a time I believe when the export business was quite good and profitable, and as long as the export business paid the large packers I understand they were quite willing to raise their prices for home business, domestic sales.

Q. Was the cut-throat competition less, as far as you were concerned?—A. It really did not exist during the first three weeks of January, but then just as soon as the export market weakened then down went prices, there seemed to be no bottom, and while we were able to show a profit in the month of January we more than lost all of that in the month of February and the succeeding months.

By Mr. Young:

Q. You seem to be paying rather generous wages to your men. Do they have steady work at those rates?—A. Some of them, not all of them; some of the men are on part time.

Q. 45 cents an hour is the average?—A. Of course, we have a very small staff and, I think, a very efficient staff now; there are so few of them, and those who are with us are still the best among the staff that we formerly employed.

By Mr. Sommerville:

Q. And you have had them for some years?—A. Yes.

Q. Married men?—A. Yes.

Q. With their families living in St. Catharines?—A. Yes, sir.

By Mr. Factor:

Q. Is it your opinion that the Canada Packers in your territory sell below cost, below their cost?—A. They do in many cases. In fact, I know that according to the salesman who canvasses ourselves, he always furnishes us with his cost; that is their rule. A salesman is given a sheet showing his cost and he is expected to make a profit over that, and there were times, after some pressure, when he was selling at less than his cost, that is to us, and I am sure that he has done it with small retail merchants as well. But what I have found is that on their staff of salesmen,—there are three men I have in mind working in the Niagara district; one covers St. Catharines, one Niagara Falls, and one covering Welland and the Port Colborne district. The St. Catharine man does not seem to break prices so frequently or so readily as the other two, but I think I could get evidence myself any day where the Welland man and the Niagara Falls man have taken business from retail merchants away below our cost and I believe below their cost.

Q. Well, are there any instructions issued by packers to their salesmen with some fixed price that they are to charge for their products, or is it entirely left to the discretion of the salesmen?—A. Well, some of them at least—I won't say all of them—but some of them are given quite a lot of authority.

By Mr. Sommerville:

Q. Latitude?—A. Yes.

Mr. Kennedy (*Peace River*): This seems to be in line with Mr. McKenzie's statement.

Mr. Sommerville: Well thank you, Mr. Moyer.

Witness retired.

A. B. Shepherd, examination resumed.

By Mr. Sommerville:

Q. Mr. Shepherd, I think you have for us a statement that was being prepared yesterday; has that been typed?—A. Yes.

Mr. Sommerville: I want to examine Mr. Hutchinson on this.

CANADA PACKERS LIMITED

Departmental Profit and Loss Account for the Year ended March 29, 1934

	Including Interest Charges	Eliminating Interest Charges
Meat and By-products Departments—		
Beef	$ 831,912 70	$ 742,759 58
By-products	549,270 82	648,140 11
Casings	200,543 66	215,063 02
Barrelled beef	404 55	4,170 96
Sheep and lambs	43,599 54	58,284 86
Calves	406 33	14,097 06
Provisions	138,546 09	89,851 65
Sausage and cooked meats	12,823 36	22,151 29
Total Meat and By-product Departments	$ 189,869 91	$ 308,999 37
Vegetable products and products other than meat—		
Produce (butter, eggs and cheese)	$ 109,836 12	$ 159,991 95
Poultry	9,875 82	16,819 34
Oil and shortening	226,200 21	308,129 37
Canned goods	51,553 13	23,068 65
Fish	10,532 75	11,428 04
Soap	10,952 25	12,965 33
Freezer and other sundry items	1,341 95	11,536 15
Total vegetable products, etc., departments—	$ 317,185 97	$ 497,801 53
Selling Departments—		
Car routes	$ 11,907 13	$ 65,757 63
Retail market	4,325 17	4,548 00
Total selling departments	$ 16,232 30	$ 70,305 71
Total packing house departments	$ 143,548 36	$ 877,106 61
Branches other than main plants—		
Chicago	$ 66,190 13	$ 187,640 93
Branch houses	4,969 67	131,867 90
Creameries	38,204 75	14,327 76
Fertilizer department	73,790 99	98,776 69
Sundry departments (cold storage, wool pullery, etc.)	61,203 88	133,782 15
Total branches other than main plants	$ 158,010 58	$ 537,739 91
Expenses under absorbed (Advertising and Administrating)	$ 50,000 00	$ 50,000 00
Total operating profit subject to interest	$ 251,558 94	$1,364,846 52
Interest charged in operating results	1,496,166 29	....
Interest charged to service and other departments	....	382,878 71
Net operating profit before interest	$1,747,725 23	$1,747,725 23
Miscellaneous income and expenses—		
Interest received on investments	$ 230,533 40	$ 230,533 40
Interest received, sundry	58,641 45	58,641 45
Profit on investments disposed of	58,641 45	58,641 45
Transfer of surplus in insurance reserve	....	....
Interest paid on bonds	287,154 23	287,154 23
" " bank loans	97,533 11	97,533 11
" " to others	....	....
Interest written down	....	....
	$ 92,003 18	$ 92,003 18
Net profit before adjusting for inventory reserves, etc	$1,655,722 05	$1,655,722 05
Transfer from general reserve	225,457 71	225,457 71
Net profit before providing for income taxes	$1,881,179 76	$1,881,179 76
Provision for income taxes	430,000 00	430,000 00
Net profit	$1,451,179 76	$1,451,179 76

By Mr. Sommerville:

Q. I wanted to have cleared up this question of costs of individual products in the packing industry. Perhaps you will be good enough to tell the committee just what is the general rule and what you know to be the practice in the packing industry with respect to costs of individual items and your further statement on that, Mr. Shepherd?—A. Dealing first of all with hogs in the packing industry, the operation of the hogs is known as joint products.

Q. The operations are known as joint products?—A. Joint products, yes.

Q. That is, the products of the hog constitute joint products?—A. In other words, a hog is bought as a hog then it is distributed into a number of different grades, and all those grades sell at different prices. I should have said "cuts" instead of "grades." The cuts sell at different prices, with the result that it is impossible to determine the cost of any particular cut. And in support of that contention I propose to read a paragraph of a pamphlet prepared by Mr. J. H. Bliss, late of Swift & Co., Chicago, entitled "Cost Methods in the Packing Industry."

By the Chairman:

Q. Where was this read?—A. This is a pamphlet prepared for the National Association of Cost Accountants.

By Mr. Sommerville:

Q. Of the United States?—A. Yes, and issued as one of their official publications. Mr. Bliss says this:—

> Being joint products (he is speaking now of hogs) it is impossible to figure the cost of each separately, though the cost of the whole group might be readily calculated.

And further, I have before me a book written by Howard C. Greer, entitled "Packinghouse Accounting," and it is prepared by the Committee on Accounting of the Institute of American Meat Packers. Mr. Greer says in regard to cost accounting:—

> Where markets are sensitive and frequent changes occur, the operator necessarily depends greatly upon his cost figures for information and guidance. The essence of the method of cost-figuring for joint products expresses the current market situation to the man who handles the merchandising transactions for such a business. Nowhere is this better illustrated than in the hog business of the packing industry, where tests or estimated costs are prepared in this form daily for the purpose of indicating the market relationships.

Now, that shows that there is no possibility of arriving at what might be the actual costs. The same condition applies in regard to beef.

Q. In regard to beef?—A. Yes.

By Mr. Factor:

Q. What is the object of splitting the industry into so many departments? You spoke yesterday of 70 departments. What is the object in doing that?—A. If I might read from Mr. Greer. He says:—

> The development of departmental accounting in the packing industry results directly from the character of the business and its transactions. The managers of packing companies handling various classes of live stock (cattle, sheep, calves, and hogs) and frequently having in addition allied industries, necessarily have to consider each division of the business as a unit. Moreover, the principal departments of a packing house establishment have the characteristics of separate business organizations in that these departments customarily buy and sell products and their

managers are held responsible for the conduct of merchandising transactions and the operations of their respective departments as though they were carrying on a separate and individual business.

I think that expresses it very clearly.

The CHAIRMAN: We are dealing of course, for the moment, with the Canada Packers, and Swifts, who are the two large packers in Canada. They copied the American system of packing house accountancy, as I understand it.

The WITNESS: Generally speaking; that is to say, there are certain differences.

The CHAIRMAN: They have adapted the American packinghouse accountancy system here.

The WITNESS: It is the same general system of accounting as is used in the States.

By Mr. Factor:

Q. Let me ask you this. Perhaps I should not put this question to you, but I have been worrying about it. Was the origin of the accountings motivated in any way by the large packing industries in the United States with the object, in case any investigation should arise, that it could not be investigated?—A. I do not think so. I think the system can be definitely stated as the only practical system that could be used from their standpoint. They must operate on department costs. You see, after all, it is no good to them to know the results of the operations of 70 departments in one figure.

Mr. SOMMERVILLE: They want to know the operations of each specific department of the 70 departments, so that they could put their finger on any trouble that would be indicated by those results.

The WITNESS: And the department managers are responsible for their own department.

Mr. EDWARDS: They have a very close running audit every day of the week.

The WITNESS: Well, controlled, not exactly audit, but close control.

Witness retired.

THOMAS A. HUTCHISON, called and sworn.

By Mr. Sommerville:

Q. Mr. Hutchison, you are an accountant?—A. Yes.

Q. A member of the firm of Peat, Marwick, Mitchell and Company, Toronto?—A. I am.

Q. In connection with the audit or examination of the packinghouse industry, you particularly had to do with Canada Packers Limited?—A. Yes, I did.

Q. You had a good deal of experience in the packing industry accounting, prior to that?—A. Several years.

Q. So that you are familiar with the methods and accounting system in force in those industries?—A. The general principles would be the word, rather than the system. The system might be different in different firms.

Q. In the examination of Canada Packers—perhaps I might ask you first of all—when the question was raised this morning about there being different prices quoted to different people, for the same product in the same town or city, did you make any observation of that condition in the books of Canada Packers?—A. Yes; there is no question of it.

Q. No question?—A. No.

Q. Did you take off a few samples in Hamilton and Niagara Falls during the month of May?—A. Yes.

Q. Is this the result (producing)?—A. This is the result we gave to you.

Q. This is filed as exhibit 204.

List of samples obtained from books of Canada Packers filed and marked exhibit 204.

Without giving the names of the parties which are available on the exhibit for the members of the committee, did you compare actually the same grade as shown on the books for the various prices?—A. Yes, I think we designate on that sheet the grade which the records of Canada Packers show they shipped.

Q. Take for instance, Niagara Falls, Ontario. On May 14th, they sell to firm A, one carcass of baby beef, good grade, at $10\frac{1}{2}$ cents a pound; firm B, the same day, one carcass of baby beef, good, $11\frac{1}{2}$ cents a pound; May 18, firm C, one carcass, steer, 550—what does that mean?—A. That would be the weight.

Q. 550 steer, medium grade, 9 cents; May 22nd, firm C—

Mr. ILSLEY: The same day?

Mr. SOMMERVILLE: Four days later. One carcass, 550 steer, medium, $10\frac{1}{2}$ cents. Then, let us take Hamilton. May 2nd, firm A, one hind quarter, 550 steer, fair—that is a definite grade?

The WITNESS: "Fair" would be a definite grade.

By Mr. Sommerville:

Q. $10\frac{1}{2}$ cents. Firm B, same day, 1 hind quarter, 550, fair, steer, $8\frac{1}{2}$ cents —a difference of 2 cents in that?—A. Yes.

May 2, same day, firm C, one hind quarter, heifer, fair, 12 cents; May 1, the day before, firm D, 2 hind quarters, heifer, fair, $10\frac{1}{2}$ cents—a difference of $1\frac{1}{2}$ cents; April 27, firm A, 1 side, 550 steer, fair, 9 cents; the same day, firm F, 1 side, 550 steer, fair, $9\frac{1}{2}$ cents; May 8, firm G, 1 front, fair, heifer, 7 cents; May 7, firm H, 1 front of heifer, fair, same grade, 10 cents—a difference of three cents in that respect; May 9, firm J, 1 hind quarter, medium, heifer, 12 cents; firm K, the same day, 1 hind quarter, medium heifer, $9\frac{1}{2}$ cents—a difference of $2\frac{1}{2}$ cents; May 9, firm L, 2 hind quarters, heifer, $8\frac{1}{2}$ cents; the same day, firm M, 1 hind quarter, heifer, fair, $11\frac{1}{2}$ cents—a difference of 3 cents; May 17, firm N, 1 front, 550 steer, fair, 9 cents; the same day, firm O, 1 front, 550 steer, fair, 7 cents; May 12, No. 2 account, 2 hind quarters baby beef, fair, $12\frac{3}{4}$ cents; 2 hind quarters baby beef, No. 1 account, fair, $10\frac{3}{4}$ cents.—A. That will be two steers for the same individual at different prices.

Q. Two steers to the same man at a difference of three cents?—A. Yes.

Q. Two hind quarters of baby beef here?—A. Yes.

Mr. KENNEDY (*Winnipeg*): How do you account for that?

Mr. SOMMERVILLE: Good salesmanship.

Mr. EDWARDS: All the traffic can bear.

By Mr. Sommerville:

Q. These are some sample indications?—A. Yes.

Q. That you took from them covering beef alone?—A. Yes.

Q. The same thing prevails with respect to other products?—A. We have some examples of it on hog products.

By Mr. Factor:

Q. Does that prevail throughout the dominion, or is that confined to this point?—A. I think it is particularly noticeable in eastern Canada, but it would cover the whole of Ontario and Quebec, anyway. The competition is more severe between salesmen at those points than it would be in other parts of Canada where there would be not as many salesmen going into one town.

By Mr. Young:

Q. Do their prices for beef products fluctuate with the price of cattle? If during the day the price of beef cattle dropped, would it be reflected that day in the beef?—A. No, I do not think it would necessarily be reflected as rapidly as that. I cannot say how rapidly the salesmen would be advised of the changes in the cost of beef.

By Mr. Sommerville:

Q. Now then, with reference to the lower grades of beef, they are called what?—A. Cutter and boner.

Q. Cutter and boner?—A. Yes.

Q. Did you find a wide variation in the prices at which these lower grades of beef, cutters and boners, were sold to different customers?—A. Yes, a fairly wide variation. Of course in these cases they are not all being sold in the same territory, and the freight differential would enter into it in each case, would enter into the difference in prices.

Q. The variation would run from what prices?—A. We have not prepared an analysis on that basis.

Q. Perhaps from the sheets that are before you you could give us the low price?—A. I think it would take me a little while to make that up. These are cutter and boner steers, cows, heifers, and bulls, and we cannot compare one with the other.

Q. Let us take the lowest grade. What is the lowest grade?—A. The lowest grade would be the bull, but I notice here there are cows, fronts of beef, boner cows, I should say, sold at $3\frac{1}{2}$ cents. That is the lowest price at which they were sold during the week ending April 19.

Q. What is the top price for cutters or boners?—A. I have here one at $4\frac{1}{2}$, another cow, boner cow front.

Q. I thought there were wider variations than that?—A. One cannot compare a boner cow with a boner steer, because they are two entirely different types of animals. Nor would it be fair to compare a front with say a hind, because there is a two or three cent spread between the two.

Q. The statement you have prepared, however, gives us some instances of the variations in prices of each of those cutters and boners?—A. Yes.

Q. Let us have them please, and we will then examine them.

By the Chairman:

Q. Is there any indication of the extent to which these cutters and boners go into the fresh meat retail stores as meat consumption?—A. All these sales during that week, I presume, go to retailers. They might go indirectly to fox farms, but on the face of the shipment records, they go to butchers who would be retailing.

By Mr. Sommerville:

Q. I shall just give some of the locations. There are about 10 different individuals at Hamilton, then Port Dalhousie, St. Catharines, Welland, Port Colborne, Nova Scotia and New Brunswick, Bonaventure, Quebec, Merritton, Ontario, Chatham, Ontario, Preston, Ontario, Guelph, Owen Sound, Kitchener, Midland, Waubaushene, Elmdale, Craighurst, Port McNicholl, Sturgeon Falls, Three Rivers, Quebec, and then there are about 20 more in Quebec, New Brunswick and Nova Scotia?—A. Yes.

By Mr. Factor:

Q. I suppose you cannot tell whether the retailer sells boner and cutter beef to the consuming public?—A. No, it would be impossible to tell that. There

is one case mentioned there, where I think they were sold—you will notice I have an asterisk there—to some city for relief purposes. That would be a clear indication they were used for human consumption.

By Mr. Sommerville:

Q. Does this cover all the sales of cutter and boner grades for the entire week?—A. All in the shipment records we examined. That was a certain class of shipments. I think there would be sales through their branches which we would not have seen.

Q. Shipments?—A. Yes; this is the Toronto plant.

Q. That would not cover all the sales?—A. Some of the shipments to their branches they might not have a record of.

Q. But it gives an indication of the trade in that particular week, April 12th to April 19th, 1934.

By Mr. Kennedy (Peace River):

Q. Did I understand you to say that some cutter bull beef has been going out for relief purposes?—A. Yes.

Mr. SOMMERVILLE: We have one case here of boner.

Mr. KENNEDY (*Peace River*): I wondered where some of it came from.

Mr. SOMMERVILLE: One front bull, bright in flesh; the next one, 3 fronts of bull beef, the next one two fronts of bull beef, and so on down the line.

By Mr. Ilsley:

Q. In those varying prices for beef that you have set out in the statement that Mr. Sommerville just read, are some of the prices below cost?—A. Some of them would be, undoubtedly.

Q. The last witness said that salesmen are supplied with a list indicating the cost price?—A. When I say " cost price " I should not say the cost, but the cost as they compute them; that is, they have what they call the beef cost record, on which they make a computation for their own purposes of the cost of beef carcasses. That includes the expenses, and these expenses include 6 per cent on the capital employed; and that is just a figure against which they compute the profit or loss on selling the carcass.

Q. I understood the last witness to say that the salesmen are supplied with something indicating the cost of the meat they are selling, is that correct?—A. I think I had better explain the method under which they retail, or their salesmen retail their products.

By Mr. Sommerville:

Q. If you will, please?—A. This is particularly true of hog products rather than beef. The salesman is given a price list which is made up each week. On that price list is the price the firm would like to obtain for their product. They don't anticipate they will obtain it, but they would like to obtain it. Against that list is set a code with letters designating the number of cents below the price listed on the price list which the salesman can sell the product at. That is the price which he is expected to obtain for that product. He must obtain that. Above that there may be a 3-cent margin to the retail selling price which is put on the selling price list.

By the Chairman:

Q. This is a margin of freedom in which he can use his judgment?—A. Yes, that is so. He might have hams, we will say, listed at 22 cents on the selling price list. The code would show that he could sell them down to 20 cents.

By Mr. Ilsley:

Q. Would he be permitted to get more?—A. Yes, I think so. I won't say definitely, but he is allowed to take what price he can get, anywhere between 20 and 22 cents. I would not say definitely he can take more than 22.

Q. You don't know that?—A. I don't think they could, because the retail trade would know if they are being charged.

By Mr. Factor:

Q. Is 20 cents below the cost, according to their system?—A. You can't say. In the case of hog products it is impossible to say whether it is below cost.

By Mr. Sommerville:

Q. Perhaps you will explain to the committee how that salesman operates in the matter of his own sales, the sales costs and what he gets?—A. Take this example I was quoting of the 20 cent price; anything the salesman can obtain over 20 cents is known as his margin. If he obtains 21 cents, he gets 1 cent margin a pound on selling this ham, I think I quoted. At the end of the week they add up all these margins which he obtained on all his sales for the week, and against that they apply his salary and travelling expenses and a certain proportion of overhead and operating expenses of the plant as a whole. He is expected to show a profit; that is, his margins obtained from selling should exceed those expenses which they charge him with.

Q. From your examination did they exceed that? In the tests that you took of the various weeks, did they exceed the margins that were set out, or the costs? —A. We didn't examine it from that point of view, and particularly not their individual salesmen. The best thing I could quote would be from this statement that you have in front of you. The car route selling department for the year ended March 29, 1934, made $11,907.13.

Q. Interpreted, what does that mean?—A. That would mean that the margins which the salesmen obtained exceeded the costs with which they were charged by $11,907.13.

Q. That is net?—A. Yes.

Q. But then that may involve a very large volume?—A. Yes, it would.

Q. That involves the volume of all the sales?—A. Well, all of the sales sold through the car route department.

Q. And that may involve heavy losses on one product and heavy gains on another product?—A. It might do so, yes.

Q. Have you any examples of that particular phase of it, of the car route selling department, reflecting gains in the one case and losses in another?—A. Well, I can quote some margin figures on provisions.

By Mr. Ilsley:

Q. Just excuse me a minute. Before you go into that, I would like to understand these margins. The sum of these margins to the salesmen is supposed to exceed what?—A. The expenses with which they are charged. Those expenses will be their salary, their travelling expenses and a proportion of the operating and overhead expenses of the organization as a whole.

By Mr. Sommerville:

Q. Charged to the selling department?—A. Yes.

By Mr. Ilsley:

Q. Suppose a salesman went down to the code minimum on every sale, what would happen to him?—A. He would be showing heavy losses all the time.

Q. Then he would lose his job, I suppose?—A. Well, I won't say that. They would want to know why he was showing heavy losses.

Q. He is given that discretion?—A. Yes.

By Mr. Sommerville:

Q. For instance, if he went down to the code and sold at the code, just showed the clearance that he sold at the code, there still would be a profit of 6 per cent in the product that had been sold?—A. If he sold exactly at the code price, his week's operations would show a loss on the entire amount of expenses.

Q. Of selling?—A. Yes.

By Mr. Factor:

Q. You heard Mr. Moyer's evidence this morning where he said that Canada Packers were selling pork products below cost in this territory?—A. Yes.

Q. From the books, have you got any illustrations to give us that would corroborate that?—A. I think we have already said that to determine the cost of an individual pork product is not possible, but that you could determine it in the total, that is for the total dressed hog carcass. But once they have broken it up into cuts, you can't determine the cost of an individual cut.

Q. How could Mr. Moyer tell that it is below cost of Canada Packers?

By Mr. Ilsley:

Q. Mr. Moyer meant their code minimum, didn't he?—A. He may have meant the code minimum. I would not like to say what he meant.

Q. That would be cost, including 6 per cent on investment, according to your computation.

Mr. SOMMERVILLE: They are calculated costs.

By Mr. Ilsley:

Q. Yes, that is the way I would understand it, jumping to a lot of conclusions in understanding it in that way. I understand that they fix the code minimum at what they consider to be their cost, including, as you state, 6 per cent on their investment?—A. Yes.

Q. And they don't let their salesmen go below that. If their salesmen had made all the sales at that, the company would be out. They would have 6 per cent on their investment, but they would be out the salaries and expenses to the salesmen?—A. Yes.

Q. The selling cost?—A. Yes.

Q. They would be out that?—A. Yes, the entire selling cost.

Q. They give him that discretion to enable him to grab some business from competitors. It would never do for him to do too much of that, but he can do some of it for the sake of getting business from competitors, is that it?—A. I would think it is a matter of personal incentive, in a sense. It makes the salesman try. He wants to try and show a profit on his own route, and makes him go out after the best price and obtain the largest volume that is possible.

By Mr. Factor:

Q. If he wants to get business, he will go down to the code?—A. Of course, if he goes down to the code all the time, he will show a loss on his route.

By Mr. Sommerville:

Q. But he may go down to the code in certain areas and make it up in others?—A. It was explained to me by some of the employees of Canada Packers. What I think he does is this: He might go into a butcher's and find that in order

to get business in bacon, he had to cut the price of hams. In that case he would cut on the hams and obtain his price on the bacon. The next man he went in to see might be the exact reverse. He might have to cut the price on bacon to get the price on hams.

Q. We find these variations that you have referred to prevailing, on the previous exhibit, in beef?—A. Yes.

Q. Where he had a wide variation?—A. Yes.

Q. And in some of these cases he may be below the margin, may vary as much as 3 cents a pound on beef?—A. Yes.

Q. Some of the same beef selling at 9 cents to one man and at 12 cents to another, on the same day, in the same town, the same quality?—A. Yes.

By Mr. Factor:

Q. There is no code in beef, though?—A. I would not like to say that. I was specifically interested in pork in certain of these inquiries. I didn't ask the conditions in the beef.

By Mr. Sommerville:

Q. Does not the same system prevail in all the live stock products?—A. The car route selling system prevails on all the products, but I would not like to say what code they use on the beef, just how they figure it.

By Mr. Ilsley:

Q. How much variation is there? Can you give us an idea of how much they can discriminate as between their customers in this way?—A. In the code?

Q. Yes?—A. Well, the margin runs from 1 cent up to 25 cents. That is the margin. But the 25-cent margin, of course, may apply on products sold by the ton or the hundredweight. It does not follow that any of these margins can apply to different quantities. That would be the difficulty there, in judging it. I can give you the way it runs: 1, 1½, 2—those are cents—2½.

Q. Per pound?—A. Well, it is per unit, whatever the price is given in. It might be a barrel or might be a ton.

By the Chairman:

Q. Those that you gave us this morning were on pounds?—A. Yes, they were pounds. That would be more likely on this first one I mentioned. 1 cent, 1½ cents, 2 cents, 2½ cents, 3 cents, 3½ cents, 4 cents.

By Mr. Ilsley:

Q. You are giving the difference between the list price and the code now, are you?—A. I am just giving the code. I have the code here. I have the amounts applied against each letter. The first letter is 1 cent; the second letter is 1½ cents.

By Mr. Sommerville:

Q. If the code had the first letter on it, it would mean a 1 cent margin?—A. Yes.

Q. And if it had the second letter, it would mean a 1½ cent margin; if it had the third letter, it would mean, as you state, a 2-cent margin?—A. I think I can give may be one or two examples of the spreads here. I have smoked meats here. On Maple Leaf hams, the week ending April 7, 1934, the margin was 3 cents.

By Mr. Factor:

Q. Between the code and the selling price?—A. Between the selling list price and this code price.

By Mr. Sommerville:

Q. That is, they had a leeway of 3 cents?—A. Yes.

Q. The salesmen had, on that product?—A. Yes.

Mr. FACTOR: Per pound.

Mr. SOMMERVILLE: Per pound, yes.

The WITNESS: I have here Maple Leaf sliced backs, 4 cents on this week.

By Mr. Ilsley:

Q. The effect of all that is just this, that a leeway is given, irrespective of volume altogether. Irrespective of the volume or quantity that the purchaser buys, the salesman is allowed to cut prices within a certain range there?—A. The salesman is really put in the position of a trader within his territory. I don't think the manager of the department or of the business concerns himself with the individual sales. He concerns himself with the results shown by the salesmen.

By Mr. Sommerville:

Q. The net result at the end of the week?—A. Of the salesmen, yes.

By Mr. Factor:

Q. Did you ever find any illustrations where they sold below the code?—A. Well, we never looked for any and we didn't find any. We might have noticed them if we had been specifically looking for them. They would not sell below the code without instructions from their head office or from the manager of the department.

Q. I think we had some evidence along that line from one of the witnesses. Now, going back to this exhibit that you have put in of the prices of beef sales for cutter and boner grades during the week of the 12th to the 19th, I observe that there are two grades. One is cutter and the other is boner?—A. Yes.

Q. And in this large list of sales of cutters, the prices range from $3\frac{1}{2}$ cents to 10 cents over these various customers who are buying cutters?—A. Yes.

Q. That may be affected by whether they are hind quarters or fore quarters?—A. And also whether they are steers, cows or bulls.

Q. That is for cutters?—A. It is hardly on the basis of comparison unless you break it down into the kind of animals and the kind of cuts. That could be done fairly rapidly, if you would like to have that done.

By Mr. Factor:

Q. You did give us an illustration of the same grade, and of the same animal being 3 cents and 4 cents?—A. $3\frac{1}{2}$ or 4 cents.

Mr. SOMMERVILLE: We will have that done later.

By Mr. Ilsley:

Q. Did Swifts have the same system of giving their salesmen leeway to trade?—A. I didn't examine the accounts of Swifts, and I could not tell you that.

Q. You don't know anything about other meat packers?—A. Well, I was specifically concerned with Canada Packers in this investigation.

By Mr. Sommerville:

Q. Looking at the sheet before us, this sheet has been prepared as showing departmental profit and loss account for the year ended March 29, 1934?—A. Yes.

Q. And in the first column it includes the interest charges that have been made to each of these departments by Canada Packers' head office, is that right?—A. Yes.

Q. And in the second column it eliminates the interest charges that have been made to the departments?—A. With the exception of an item you will notice at the foot, $382,000.

Q. With the exception of the item at the foot?—A. Yes.

Q. Just as an illustration to the committee of the difficulty of ascertaining the difference between the price paid for the live animal and the price obtained for the beef, will you indicate to the committee where the various parts of the animal are to be found in this statement?—A. Yes, I will. The beef department listed first includes the sale of the beef in carcasses and cuts. The by-products would include the handling of the hides, what they call tallow, edible tallow, obtained from the animals, and also fancy meats which would be livers, tongues and so on; and the casings include beef casings. The sausage would include some beef.

Q. So that if you show, according to this statement, a loss in the beef department, that covers only certain cuts of carcasses?—A. The beef department covers the carcasses and what are known as the beef cuts.

Q. And the by-products, which show a profit there of $549,000 contain these other parts of this same animal?—A. Yes, they do.

Q. And the casings department, which shows a profit of $200,000 odd, contains other parts of this same animal?—A. They do, yes.

Q. And the sausage and cooked meats department contain other parts?—A. Yes.

Q. So that if you wanted to reassemble the animal, you would have to get the parts from these various departments?—A. Yes.

Q. And the costs and the profits made on each of these departments would have to be taken back?—A. Yes.

Q. To ascertain what was the price obtained for the original animal?—A. Yes.

Q. Is not that the difficulty that exists in connection with the industry?—A. In certain departments it would be impossible. For instance, in the sausage department, if you sell sausages containing both beef and pork, you can't determine how much the beef was sold for and how much the pork was sold for.

By Mr. Factor:

Q. Take the profits from by-products and the casings. They total $749,000 odd of profit, and the loss on the beef is $813,000?—A. Yes.

Q. So that even taking the profits on the by-products and casings, it still shows a loss?—A. That is right. Of course, you should not take the whole of the casings. Those are casings from beef, sheep, lambs, calves and hogs. But it still shows a loss, as you say.

By Mr. Sommerville:

Q. But in that item of loss are interest charges?—A. Yes, interest.

Q. Then when these products are produced, they go to the sales department?—A. That is right, yes.

Q. And then the sales department handles the selling end?—A. Yes.

Q. And on that there may be, as I understand it, a loss in one variety of product and a profit on another?—A. I would not say exactly that. I would say that they obtain different margins on different kinds of products; and no one can determine the cost of selling beef as against pork when they are all sold through one agency or one department.

Q. Yes, but what did you find, for instance, in arriving at a net figure of $11,000 as a profit on car routes selling departments, as to profits in one branch as against losses in another branch of the industry?—A. I estimated that the provisions department margins in the week ending January 4, in the four weeks period ending January 4, 1934, and March 29, 1934, exceeded the average expenses

of selling by 55 cents a hundred pounds. That would represent 55 cents a hundred pounds profit or margin in that department, and that applied on the total sales of provisions through the car routes department would amount to approximately $100,000 during the whole year.

Q. Take the total meat and by-product departments, if you include interest charges it shows a loss of $189,000 odd, is that right?—A. Yes.

Q. And excluding interest charges, a profit of $308,999.37?—A. Yes.

Q. The difference being made up in the interest charges only?—A. Yes.

Q. In other words, the 6 per cent difference has accounted for the set-up?—A. For that change.

Q. And then would not the question of profit in each department depend upon the price at which that is transferred from one department to the other? —A. Yes, sir.

Q. So that you may have in the case that you have given us, of provisions, where you say the profits on provisions in the selling department for the year would amount to $100,000, does that not really mean that the selling department got those products at $100,000 less than their real value to the company? —A. Of course, that is a difficult statement to answer because you cannot say that it is an excess of the average margin over the average expenses.

Q. Of the selling department?—A. Yes, the average margin of the provisions department over the average expenses of the selling department as a whole. The trouble there arises in what are the costs of selling of provisions, that is, pork products, as against selling beef products.

By the Chairman:

Q. Well then, just follow that point of provisions. In your statement you show on provisions here a loss for that year of $138,000?—A. Yes.

Q. Now, is that loss— —A. That is after interest.

Q. After interest, yes. That loss then is at the figure that is arbitrarily fixed when it is passed on to the selling department?—A. Yes, certainly.

Q. And then the selling department took hold of the provisions, sold them, and made a profit of $100,000?—A. Yes.

Q. Would it be fair then to say that this is before interest was taken off, you deducted $100,000 from the $188,000 and you would get a net loss of $88,000 on provisions?—A. Yes, that is correct.

Q. So with interest eliminated it would show?—A. $189,000.

Q. It would be more than that. Take the selling department. Have you got that broken down there without interest?—A. You mean the $65,000?

Q. You gave $100,000 profit on provisions.—A. Selling through the selling department, yes.

Q. But how about it without interest?—A. You mean, there is interest at 6 per cent in the costs of the selling department?

Q. Yes.—A. Yes, this would amount to about 4 cents per hundred pounds, I think, which would represent about $8,000 or $10,000 for the whole year.

Q. There would be about $110,000?—A. It would not be more than that.

Q. Plus the $89,000, which would be about $200,000?—A. Approximately $200,000.

Q. In the provision department if you eliminate interest?—A. Yes.

Mr. Factor: There is one interesting item there, Mr. Chairman, the Fertilizer Department.

The Chairman: That shows a profit all across the board.

Mr. Factor: We had a gentleman here from the Fertilizer Association who painted a pretty blue picture to us about the fertilizer situation.

Mr. Sommerville: This is the Fertilizer at the Toronto branch which covers western Ontario.

Mr. FACTOR: Yes, the Fertilizer Department.

Mr. SOMMERVILLE: The Fertilizer Department, showed a profit with interest charges, of $73,790.99, and without interest charges $98,776.69.

Mr. FACTOR: If I remember the evidence correctly at that time, the president and secretary of the Fertilizer Association told us they had a loss of $100,000.

Mr. YOUNG: That is the commercial fertilizer.

Mr. FACTOR: What is this?

Mr. SOMMERVILLE: This is the same thing because you will remember the statement was made that the secretary of the Fertilizer Association of Ontario is Canada Packers representative.

Mr. YOUNG: What do they mean by "tankage"?

The WITNESS: So as not to mislead you too much, I ought to mention that the year 1933 showed a loss in fertilizer, and it is possible that the secretary of the Fertilizer Association was dealing with 1932 figures. That might mislead you.

By Mr. Edwards:

Q. You are speaking about the sales and the way the overhead was added to the cost of selling; the overhead and operation of the plant was added to the cost of selling.—A. Yes.

Q. Is that the general basis?—A. Well, this is a method of carrying on business peculiar to the packing business, that is, selling through a special department.

Q. Well, would not that have a tendency to show that the cost of selling was just that much higher; for instance, if a salesman thought he should have more salary and they say: This is what it is costing us to sell and he says look at the overhead and the interest charges.—A. I do not think you can say that. This interest charge and overhead charge, as I think we mentioned, is included in all these departments. It is just the general practice of the company to charge overhead, which includes interest, to every department, every operating department in the company.

Q. Is that the general practice of industry, manufacturing concerns particularly, where you bring the cost of your product, your overhead and so forth, the finished product to your salesmen and then from there on you add your selling cost?—A. It is hard to make a general statement of that kind. I think yesterday Mr. Shepherd mentioned that some manufacturing industries added interest into their costs and some did not. Therefore, you cannot lay down a rule on that. I would say that myself.

By Mr. Factor:

Q. Mr. Hutchison, this final analysis in this statement—just correct me if I am wrong—shows that the net profit before providing for income tax is $1,881,000 odd?—A. Yes, that is what it shows.

Q. Is that the net result of the operation of the Toronto plant, or what? —A. No, that is for the organization as a whole.

Q. The organization as a whole?—A. Yes, Canada Packers Limited consolidated profit and loss account.

Q. In other words, they made $1,881,179.76 for the year ended March 29th, 1934?—A. Before providing for income tax.

Q. Before providing for income tax and eliminating this interest?—A. Well, you notice at the foot of that sheet that the amount is the same whether they eliminate interest or not.

Q. Yes, and charge interest.—A. The interest figure remains in at the foot of that first page; it is added back.

By Mr. Sommerville:

Q. It means that the net profits were $1,881,179.76 after providing a sum of $750,000 odd for depreciation?—A. Yes.

Q. And before providing for income tax $430,000?—A. Yes.

Mr. YOUNG: And that is on a total turn over of how much?

Mr. SOMMERVILLE: $54,000,000.

The CHAIRMAN: Well now, are there any further questions? I do not think we will go on with another witness before lunch, if it is agreeable to the committee, and we will meet at 3.30 to hear the Swift man and another witness this afternoon.

The committee adjourned at 12.30 to meet again at 3.30 p.m.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

JOHN H. TAPLEY, called.

By Mr. Sommerville:

Q. Mr. Tapley, you are the manager of the Swift Canadian Company, Limited?—A. Yes, sir.

Q. And you have been for some years?—A. Yes, sir.

Q. During what period?—A. About 14 years.

Q. And their head offices are in?—A. Toronto.

Q. And how many plants have you in Canada?—A. Six.

Q. Located where?—A. Moncton, Toronto, Winnipeg, Moose Jaw, Edmonton and New Westminster.

Q. And each of these six plants is operated as a packing plant?—A. As a separate unit.

Q. As a separate unit?—A. Yes.

Q. You have not a consolidated statement of the operations of your company of all the plants in Canada?—A. Each one have their own statement and then they are brought into Toronto.

Q. That is, the net result?—A. The net result.

Q. But I understand there is no single consolidated statement in existence of all the plants?—A. That is correct.

Q. And then you operate your business by department?—A. Yes, sir.

Q. And you have about how many departments?—A. 70 or 80.

Q. And each department is operated separately?—A. Yes.

Q. And each department's accounts are kept in the department separately?—A. That is right.

Q. And then you just get the net result from each department?—A. Yes.

Q. And that is the packing house method by which your accounts are kept?—A. That is the general custom.

Q. I think you heard Mr. Shepherd this morning read the statement of Mr. Bliss of your company?—A. Yes.

Q. And do you agree with that statement?—A. I do.

Q. You have no means of getting the separate costs of the various components parts of an animal when it has been broken down?—A. That is right.

Q. And, therefore, your costs whether of hogs, or cattle or other live stock are based on an estimated basis, are they not?—A. The dressed costs are accurate; beyond that they are estimated.

Q. Yes, beyond the dressed costs then they are estimated based upon past experience?—A. The value of one particular cut depends on what you are to get for the other cuts in the same carcass.

Q. And those estimates are a sort of arbitrary rule that you use in fixing the prices at which the product is transferred to another department?—A. That is right.

Q. And then all those products pass through to your sales department, or to your export department, or your branch department?—A. That is right.

Q. And is sold in that way?—A. That is so.

Q. And then there is a profit reflected in the sales department, we hope?—A. We hope.

Q. Now, can you furnish the committee with a statement of the volume of your purchases of live stock during the past two years?—A. You mean the value?

Q. No, the volume, the number of heads of cattle, hogs, sheep and calves?—A. I have not that with me. I understood the auditors would naturally work that up when they were at our plant.

Q. I see. Well, will you send that in to the committee?—A. I will be very glad to. Do you want that in head or weight?

Q. We would like to have it in both head and weight.—A. Of all live stock?

Q. Yes.—A. At each of the plants?

Q. At each of the plants, yes.—A. All right.

Q. And if you will be good enough to indicate the proportions that have been bought by direct shipment, or by truck, or on the stockyard.

Mr. Factor: We have got that, have we not?

Mr. Sommerville: Not the total.

Mr. Young: Just hogs.

Mr. Sommerville: And then we had it for the particular plant in Toronto.

Mr. Young: For several plants, Winnipeg and Edmonton.

By Mr. Sommerville:

Q. I would like you to have a look at the statement that was put in by the auditors for Wilsill's plant showing the condensed statement of operations of the plant; I would like you to look at page 2246 of the evidence and ask you, Mr. Tapley, if you have a similar statement for your entire company's operations?—A. We may be able to give you one fairly close to this, but whether it would be exactly the same I would not be able to say.

Q. Made up from the nets of your various departments?—A. Yes.

Q. I see, but this is an exact statement of the entire operations, you will see, the total amount of your purchases, the total costs of your operations, the total gross profit.—A. Well, there are some items in there that it would be very difficult to get in just this shape.

Q. That is because of the departmental method by which you operate your business?—A. That is right.

Q. I just wondered whether you had that available.—A. That is the kind of statement that is very simple to work up where you have only one unit, but when you have a number of units it is quite difficult.

Q. And it is a matter of considerable expense?—A. That is right.

Q. And it is really of little use to you in your operations?—A. No use at all.

Q. You have got to have?—A. Each unit separately.

Q. Well, you buy some of your live stock on the stockyards at the various cities where your plants are?—A. Yes.

Q. And some by direct shipment?—A. Yes.

Q. And some by truck, do you not?—A. Yes.

Q. We have had some evidence here, that as the result of direct shipments when you have a large quantity coming in by direct shipment it places the packer in a position where he may stay off the market for a while. Do you agree with that, Mr. Tapley?—A. No, I do not.

Q. Well, what explanation have you for that statement?—A. I never heard of it before I heard of it in connection with these proceedings. All I can say is that in any of our operations we have never, as far as I know, set up the fact that we had surplus stock that would enable us to lay off the market.

Q. That is, you have never deliberately stayed off the market because you had surplus stock?—A. That is right.

Q. That is what you mean?—A. That is what I mean.

Q. That was not exactly the question I was asking you, Mr. Tapley. The very fact that you did have surplus stock would enable you, if you desired to do so, to stay off the market for a while?—A. If we wished to, I suppose.

Q. Yes, and that would have the effect of making the market a slow market, if the others were to do the same?—A. If everybody did the same thing then the market naturally would be delayed in opening, so to speak; trading would not start until later on.

Q. Well, we have had some evidence that frequently trading does not really start until say the afternoon of the opening day of the market?—A. That is not our experience.

Q. That is not your experience?—A. No. Our buyers start to buy the minute the bell rings, as close as possible to it.

Q. And are they keen buyers throughout?—A. It depends on the values and whether or not the results are profitable, or reasonably close to profitable. If they are bad then it might be a different thing; we either have to get higher prices for our product or lower prices for our live stock and then I imagine they would not be quite so keen.

Q. And would not their keenness be affected by the supply?—A. I do not think so, sir. I think the keenness of the buying would depend more on whether or not the business were profitable.

Q. Mr. Tapley, would you prefer to have all your buying done on the stockyards and where all the packers would have an equal chance at all the stock that is offered?—A. Our position on that is this: We are willing to buy live stock anywhere the owners wish to operate, either stockyards or direct. Naturally it depends quite a lot on the plant entirely. For example, we are situated adjoining the stockyard. The stockyard operations there fit into our business reasonably well; but take, for example, live stock east of Toronto which naturally might flow to Montreal where we have not a plant, then in that kind of situation I think we will probably be more interested in receiving receipts direct, because the natural flow of that live stock in that district would be away from us instead of towards the stockyards where we are located. Then you take another situation at Moose Jaw: If we had to operate our plant—as far as our experience has been—entirely by stockyard purchases there we would not get enough to operate the plant economically and we might have to close down, and in a situation like that I think our Moose Jaw management would have to go where the live stock is.

Q. But then would he not be in a position to buy other live stock on this stock market where it is offered?—A. No, I do not think so because he would have to buy to advantage at some point in the country where he would get a direct freight haul to his plant rather than a freight haul into some stockyard west of Moose Jaw, let us say, and then from that stockyard to Moose Jaw.

Q. Yes.—A. By the time he manufactured these animals into the finished product and shipped them to his markets in the east, or wherever they happened to be going, I think it would be economically unsound. I do not think he could compete.

Q. There is a stock market in Moose Jaw, is there not?—A. There is, yes.

Q. Well then, if all the cattle were offered in that district, or all the live-stock in that district were offered at the stockyards in Moose Jaw you would have the same conditions prevail as at Toronto.—A. If there was enough of it to carry on with and providing competitors were not buying live stock to better advantage somewhere west.

Q. Yes, but you also buy hogs at your Toronto plant; you buy western live stock and bring it in here, do you not?—A. Direct?

Q. Yes?—A. In a limited way.

Q. Where do you use the hogs that you buy in Alberta?—A. We do not bring any hogs from Alberta to Toronto.

Q. You use them in the west?—A. We use them largely in the west and we have some killed in Montreal.

Q. Western hogs killed in Montreal?—A. Yes, sir.

Q. Will those brought from Alberta to Montreal be killed for you?—A. That is right.

Q. That seems to be a long haul. Now, does that fit in with your argument that it is economically unsound if your hogs come from somewhere in Alberta and then to Moose Jaw?—A. Well, that is a direct haul to Montreal.

Q. Well, but it is a haul that has a charge of 1·14 per hundred.—A. That is the same as our competitors have to pay, so we are not at any disadvantage.

Q. All your competitors are at the same disadvantage, you say, but they have not the same advantage at Moose Jaw, or at least they have not got the same advantage as you have there?—A. The competition at Moose Jaw is very limited.

Q. You cannot have plants wherever your competitors are, at all the points, can you?—A. Not very well.

Q. Well now, from the standpoint of the farmer though, from your observations would it not be in his interest to have the live stock offered on a public market where all the packers and all the buyers might have an opportunity of buying that live stock.—A. It seems to me that is something for the producers to express their point of view on.

Q. Well now, you are being given an opportunity as a processor?—A. I have not got a very definite opinion on that, but I presume from the fact that they do ship direct it must be to their advantage.

Q. Well, does that necessarily follow?—A. Not necessarily.

Q. No, but it might be to your advantage if they ship direct.—A. It may be or it may be the reverse.

Q. Is it not a fact, generally speaking, that your dressed costs on direct shipments are less than your dressed cost on stockyard shipments?—A. I think in a general way it may be a little less, but sometimes we find it the reverse, and over a year's business I would think it would be fairly comparable, if you check grade for grade; when you check a month's operations it may be that the percentage might show in favour of the direct shipments, but I do not think that would be a very true comparison.

Q. It has been shown by the auditors statements, that for the four week periods in all the plants there seems to be a general uniformity in the experience that the direct shipments showed a lower dressed cost than those bought on the stockyards?—A. I think in a general way that is correct.

Q. And still lower costs in respect to truck hogs than stockyard hogs?—A. Stockyard hogs include truck hogs also.

Q. I mean direct truck hogs?—A. You mean truck hogs against all hogs received from the yards.

Q. Yes.

By Mr. Kennedy (Winnipeg):

Q. Does any other element enter into that increased price other than the matter of the price paid for the stock? Let me put it this way: As Mr. Sommerville pointed out, the auditors' statements appeared to show that stock purchased through stockyards the average price was higher than for those purchased through direct shipment.

Mr. Young: It does not show on the statement here.

Mr. Kennedy (*Winnipeg*): I think you will find it there. Now, what is the factor that makes that price higher, is it the price paid to the producer, or any other factor?

The Witness: Mr. Sommerville as I understand it, all the way through, has referred to dressed costs in making his comparisons. The live costs really have not the full bearing on it; your general condition of live stock might be higher or lower, and it depends on the yield.

By Mr. Sommerville:

Q. Yes, but you estimate on your dressed costs, you do not estimate on your live costs when you are dealing with your product.—A. I do not know what you mean by estimate.

Q. Well, you figure your costs on your dressed costs, on the basis of your dressed costs?—A. That is right.

Q. Yes. Now your dressed costs, in each case, take into consideration your yield and the price you paid for the product and the cost of your dressing.—A. Except hogs.

Q. Except hogs?—A. Yes.

Q. The cost of dressing is not taken into consideration.—A. Not dressed costs.

Q. But in the other products the same factors are taken into consideration, the original cost of the product, and the yield from that particular product?—A. That is right.

Q. Yes, so that then when they are on the rail you get to a comparable cost?—A. That is right.

Q. Taking those two factors into consideration?—A. Right.

Q. And that gives you a picture of just how these various purchases compare with one another when they are on the rail dressed.—A. If you are dealing with the same grade of live stock, yes.

By Mr. Young:

Q. In this statement here of your purchases for the period September, 1933, I notice at Toronto you paid 34 cents less for what you paid in the yard than for what you paid by direct shipment. In the same week at Edmonton you paid 20 cents more, and in December you paid 7 cents more in Toronto and 68 cents less in Edmonton. Can you explain how that came about?—A. That would depend entirely on the live stock and the yields and all these other things.

Q. You mean just the average outturn in grading of the hogs bought in the yard would be better this week and next week at the packing house?—A. That often happens.

Q. You sometimes pay higher prices at the packing plant than you do at the yard, and you say that would depend on the quality of the stock, but if the reverse is true, that you are paying higher prices in the yard than at the plant it would be attributed to the same cause, would it?—A. I think it depends a great deal on the condition of the animal and your yield.

Q. Do you pay a better price, other things being equal, for the stock you buy in the yard than what you pay direct at the plant?—A. No, I do not think so. We try to make our prices fairly close.

By Mr. Sommerville:

Q. Mr. Tapley, do I understand you to say that you pay as much for your direct shipment product as you pay for your stockyard purchases?—A. We endeavour to, yes, sir.

Q. Generally speaking?—A. Yes, sir. Our policy is to pay the market and we assume the market is fairly parallel. Now this might happen, when you are dealing for any shipment, you may go out and buy and in the meantime the market may change either up or down and that would have some bearing in trying to make a comparison.

Q. With reference to direct shipment at Toronto you pay the stockyard charge whether they go through the stockyard or not?—A. That is right.

Q. But that same situation does not exist at Edmonton?—A. No.

Q. And they are not comparable?—A. No.

Mr. YOUNG: What is this stockyard charge, 5 cents a head?

Mr. SOMMERVILLE: The regular stockyard charge is 25 cents a head on cattle.

Mr. YOUNG: What is it on hogs?

Mr. SOMMERVILLE: 10 cents; on calves 6 cents, and hogs.

Mr. YOUNG: Here is a difference of 34 cents per hundred pounds at Toronto for the period September, 1933, direct shipment 9·83, stockyards 9·49.

Mr. KENNEDY (*Winnipeg*): 9·42 and 9·46.

Mr. SOMMERVILLE: 9·49 stockyards and 9·44.

By Mr. Sommerville:

Q. How do you account for that difference that week, Mr. Tapley, or do you know?—A. No I would not know without checking the figures. It is just possible in making a comparison of that kind in respect of hogs that the costs of one system of buying may have more selects or more bacons and another may have more lights, and so on. You have different grades of live stock, and that is an important point.

Q. Well, but you get the same averages wherever you buy when you are buying in such quantities.—A. You may over a longer period, but whether for a week or not I would not be so sure.

Q. Well then, I understand your evidence now is that over the period of a year you pay as much for your direct shipment hogs as you pay for your stockyard hogs.—A. We may buy at the same price but it may work out on account of yield or something else.

Q. The price you pay for direct shipments, is that not based upon the price, that is, the published price on the public stockyard?—A. Sometimes, I do not think always.

Q. Is not that generally so?—A. No, I think the stockyard price registers the market rather than makes it.

Q. Well then, who makes the market if it is not made on the stockyard? It is either made on the market or outside the market?—A. It is probably a combination of both.

By the Chairman:

Q. Well, who is in the other side of the combination?—A. The various buyers bidding for their live stock or sending their quotations out to their drovers, or the market or both.

By Mr. Sommerville:

Q. Well who are the big buyers of live stock, yourselves, Canada Packers, Wilsils, Gainors?—A. And Burns.

Q. Burns, yes?—A. Hunisett.

Q. Well, Hunisett we will say is in a small way and in cattle alone, not in pork?—A. No.

Q. Do you say then that the market is made by these five big buyers outside the stockyards?—A. Some markets are made; a combination of both is my point. Take for example the various influences that enter into making markets, take the pool hogs in Alberta; they are all sold by sealed tender. Every buyer forms his idea of what he can afford to pay for hogs and he puts in his bid, so in that case you see the market would not have anything at all to do with it.

Q. Would it not?—A. I would not think so.

Q. Why is it then that you and somebody else put in a bid exactly the same on exactly the same day yet you are thousands of miles away from each other?—A. That does not happen very often.

Q. It does happen though, and it has happened lots of times?—A. It might happen at times. After all is said and done, they secured the hogs at 8 cents, let us say, if that is the prevailing market—it might be a cent or two up or down from that, but I suppose the average would be somewhere around 8 cents; then they would bid 8, 8.10 or something else, according to how badly they wanted them, and if they wanted to bid high enough to get them.

Q. Yes. Now, you are speaking of Alberta hogs. These bids are sealed bids that are put in for the Alberta hogs?—A. Yes.

Q. And each of these buyers put in a sealed bid?—A. Yes.

Q. Well, at the time the bids are put in you have a pretty good idea of market conditions in hogs?—A. The general market, yes.

Q. And there should not be very much variation in the bids on those hogs? —A. Unless one packer was a little more enthusiastic about the market, and was willing to take them at let us say an advance.

Q. Yes. Well now I have here a record of all the bids on Blind Man Valley hogs; we will take April 12: Burns 6.60, Canada Packers 6.60, Swifts 6.55, Wilsils 6.40; and they went to Burns as the high bid. Then the next week, April 26, Canada Packers' bid was 7.05, Burns 6.92, Swifts 6.75; is there as much difference as 30 cents a hundred when you are bidding for hogs—this is a direct market?—A. I would think so, at times.

Q. There is not a 30 cent difference when you go to the stockyard, is there? —A. This is what may happen: some packer may have information, or a feeling for example, that the export market looks pretty weak, is liable to go down immediately. I think he would be apt to have pretty low ideas on hogs if he was dealing with sealed bids.

Q. Remember this is a steadily rising market. Here we have May 3rd: Burns bid 6.30, Swifts 6.60, Canada Packers 6.25; is there a difference of 45 cents?—A. Apparently there was; apparently they were feeling pretty weak that week, by the looks of it.

Q. Who was feeling weak that week?—A. The one who bid 40 cents under.

Q. That would be Canada Packers then? Next week for hogs from the same place: Canada Packers 6.75, Swifts 6.25—you were feeling weak?—A. We got a cable or something.

Q. Or something, yes; of course it was something. Canada Packers got it. And then the next week: Burns 7.10, Swifts 6.75—a difference of 35 cents; you were feeling weak that week. Well, is there any coincidence in the fact that first Burns get it, then Canada Packers, then Burns, then Canada Packers, and then Burns that gets it?—A. No, I do not think so.

Q. None whatever?—A. According to my check up here. As a matter of fact we have not had Blind Man Valley hogs for about six to eight weeks.

Q. Not recently?—A. No.

Q You have been very weak on them?—A. Apparently.

Q. I am trying to find out about last year, when the market was strong. Let us take Ponoka's for the same period: April 12, Swifts 6.60, Wilsil 6.40; 20 cents difference there. They were the weak ones that week?—A. Apparently.

Q And Canada Packers bid exactly the same as you, 6.60; and Burns, 6.55. And they went to Swifts. Then the next week, Ponoka's: Canada Packers 7.05, Burns 6.95, Swifts 6.75—then they go to Canada Packers (that is for the 26th April). Then May 3rd: Swifts 6.60, Canada Packers 6.25, Burns 6.50—and they go to Swifts. And the next week, May 10: Canada Packers 6.75, Swifts 6.25—a difference of 50 cents a hundred—and they go to Canada Packers. Well, Mr. Tapley, could you not get nearer than 50 cents to the market when you were bidding outside the stockyards?—A. I do not think, on a sealed bid.

Q. You do not think you could; there is not 10 cents difference between you on the stockyards, is there?—A. No, possibly not; on a sealed bid it is everybody's guess as to what they can get the hogs for, providing they want them.

By Mr. Senn:

Q. Mr. McLean made the statement when he was before the committee that the price paid to the producer was based on the price received for export bacon; now, you say it is only a guess—which is correct?—A. On a sealed bid it is only a guess, and I do not see how else it could be.

Q. Then you have the price that you received for the finished product, particularly export bacon, you say it bears no relation to the price you paid to the farmer?—A. Yes, it bears some relation to that product, but it is not sold for a month or six weeks later. In buying hogs to-day we would have to figure out the situation to our own satisfaction as far as we could.

Q. Would you say then that Mr. McLean's statement does not give clearly your method of determining the price to the farmer?—A. My viewpoint on that is—regardless of Mr. McLean's statement—the price of hogs is arrived at from a combination of both markets rather than entirely export.

Q. You made a statement a while ago that you could not follow the dressed carcass down through the different departments to the finished article to show the spread clearly, did you not?—A. Nevertheless, you have got a general line on the domestic market.

Q. I know, but surely the price you received for the finished product must bear some relation to the price you paid. It seems to me that is the most important question of our whole investigation, as to how you determine the price to the farmer; that is what I want to know?—A. In the case of the export market, you understand, your product is not sold until about four to six weeks later. In the case of the domestic market, some of your product is sold fresh within a few days or a week, some of it is put into cure and not sold for thirty, sixty, or ninety days.

Q. Can you make any statement as to how you base that price to the farmer, as to the relationship between the price for the finished article and the price to the farmer; you surely do not just guess at it?—A. You use the last price that the grading was done at, whatever it was; you consider whether receipts are limited or if a market lacks strength—everybody knows about it, the sellers and the buyers, or the people offering these hogs probably, and they say we want 25 cents more for our hogs—or 50 cents, whatever it may be.

Q. You do not mean to tell the committee that when you buy a carload of hogs you do not know whether you are going to make a profit or a loss on them?—A. We do not know, I wish we did.

Q. Then you are just buying in the dark?—A. We just buy every day, because we are in business every day; and there is no packer I know of that absolutely knows whether this week is going to be profitable or not.

By Mr. Sommerville:

Q. We will all be in heaven if we made a profit on everything, would we not?—A. Close to it.

Q. Following up, May 10 I find the bids on Ponoka pool hogs: Canada Packers 6.75, Swifts 6.25—that is 50 cents above your bid. Then, on the next week: Burns bids 7.10, you bid 6.75 and Canada Packers bids 6.75. Is there any significance in the fact that both you and Canada Packers bid the same price?—A. I do not think so.

Q. Is there any significance in the fact that you alternate—that alternately you get the hogs?—A. None whatever.

Q. I observe here that on April 12 you got the Ponoka hogs, on April 26 Canada Packers got them, on May 3rd you got them. On May 10th Canada Packers got them; no significance, you think, in that?—A. No significance at all.

Q. Do you keep track of who gets all these hogs?—A. Yes, sir.

Q. Who gets them, and the prices paid?—A. If we miss them we make a little note of it, and note who gets them.

Q. Do you make a note of all the bids made on the hogs by the various buyers?—A. Yes, our people in the West I presume get that information.

Q. You keep a record of that?—A. We keep the memorandum of it, for no particular purpose.

Q. I beg your pardon?—A. For no particular purpose, except to keep posted.

Q. At any rate there are these bids outside of the stockyards that have the variations I have indicated, on what you call these sealed bids. Is it not a fact that very frequently you pay more for these hogs than you could buy the hogs for on the stockyards, after adding your freight?—A. Sometimes I think they are high, sometimes they may be low.

Q. Is it not a fact that generally speaking these hogs cost you more when you bring them to Winnipeg than hogs bought that day at Winnipeg?—A. I would not think so.

Q. How frequently, in your judgment, does that occur?—A. I would not know that without looking into it.

Q. Is it not a fact that you buy these Alberta pool hogs away from the markets and frequently pay high prices for them, in order to stay off the market and not raise the whole market on hogs?—A. I do not think so.

Q. Well, if you buy these hogs in Alberta and pay your $1.14 differential to bring them to Montreal, has it frequently not been your experience that they cost more than the hogs bought on the stockyards at Montreal at that time?—A. We buy very few at the Montreal stockyards.

Q. But for similar hogs bought on the stockyards? -A. I think sometimes they are higher, sometimes lower; I think they would fairly well average out over the year.

Q. On the occasions when they are higher, is not that because of the fact that you buy them away from the stockyards, and thus do not raise the stockyard prices on the whole of the hogs that are offered?—A. No, I do not think so.

Q. Of course, if you went to the stockyard and paid more for your stockyard hogs, that would affect the price of all hogs going to your plant, wouldn't it?—A. It might, yes.

Q. Is not that a natural assumption?—A. It may be, I don't know; that happens mostly I suppose in the West. If we went out and paid 25 to 50 cents higher for hogs at the stockyard, I think it would have its effect on all of the markets—yes. Likewise, I think if we paid a higher price for the pools it would have a general effect on the market.

By the Chairman:

Q. But before you leave us, Mr. Tapley: It looks strange to greenhorns like myself, that you three concerned—Burns, Canada Packers and Swifts—could go to the Blind Man Valley, and to this North pool, and bid week by week; and over a whole period of weeks and then find that the successful company—the one that secures the hogs—is more or less different each week; that is, you one week, Burns another, and Canada Packers another. Do you say that there is no understanding between the companies in that respect?—A. Positively not.

By Mr. Senn:

Q. Might I ask another question before you leave that: one of the former witnesses before this committee made the statement that at Toronto, or with respect to killings at the Toronto abattoir, there was a relationship of 68 per cent for Canada Packers and 32 per cent for Swifts; and he also made the statement that on a short market if Swifts were buying too many hogs, making it above that proportion, they would hold back a little to let Canada Packers get their share. Do you know anything about that statement, is there any truth in it?—A. Nothing to it at all.

By Mr. Sommerville:

Q. Is it a fact that on the Toronto market, the proportion of buying, as between Swifts and Canada Packers, is 68 per cent and 32 per cent or two-thirds and one-third?—A. No sir.

Q. That is not a fact?—A. No.

Q. Is that not a practice?—A. No, I think it works out—it may work out all the way from 25 per cent to 40 per cent.

Q. But on the average over a week's purchases?—A. It may be 32 per cent or 33, 34 or 31 per cent or something else.

By Mr. Young:

Q. What is the relative capacity of the two plants, Swifts and Canada Packers?—A. The total capacity?

Q. The relative capacity—is one twice the other exactly?—A. With their combined facilities on the spot, they are perhaps two to three times our capacity at Toronto.

Q. They buy two or three times as many hogs as you?—A. I do not know exactly what they do.

Q. I mean, are your purchases determined by your capacity?—A. No.

Q. They are not?—A. We are under packing house capacity, everybody has practically double the number of hogs slaughtered, at least.

Q. What are your purchases determined by, prospective sales?—A. Prospective sales, or the price of the product, determines how many hogs they want for the week, each department orders according to how they think the market is. If we think the market is going to be pretty good next week, or in England next week, we may be very active. Another time we might be losing money and not buy very high, or we would be slow—if we are losing money on this they would slow up—could not stand it.

By Mr. Sommerville:

Q. Mr. Tapley, you made the statement with respect to a laggy market that you either had to get your purchases lower or get better prices for your product?—A. Yes, sir.

Q. Now, what is there to prevent you large buyers because you do buy the vast bulk of the product—what is there to prevent you buyers going out on a

market that has been say bad, as has been described here, where the farmers were getting 2 cents to 3 cents a pound for finished steers of one thousand pounds weight in Alberta—and I think you recognize that is a very bad price, isn't it?—A. It certainly is.

Q. What is there to prevent you from going out and saying, the price that we will pay for that class of cattle is 5 cents?—A. My opinion is that the price of 3 or 4 cents—or whatever it may be—is probably caused by heavy receipts and surplus; and you arbitrarily put the price up to 5 cents or something else, and I think you would curtail consumption and immediately you would have a surplus of beef that would drop the price down to the old three or four cent price.

Q. Then, what you were saying is, that the consumer curtails consumption when you increase the price beyond 2 or 3 cents to the farmer on his finished product?—A. As prices advance, consumption we find goes down.

Q. You contend that the consumer wants the farmer to get two cents for his finished beef?—A. I do not, no.

By Mr. Factor:

Q. What relation has the price of the processed product to the live product; if you pay the farmer 2 cents or 3 cents a pound on a thousand pound finished steer, what does the product sell for?—A. You figure your dressed cost whatever it is—2 cents or 3 cents or 5 cents—and your dressed product sells in line with that—at a profit, if you can get it; if not, at an even break, or a loss—according to what you are able to do with it, according to the demand.

By Mr. Sommerville:

Q. In the event that you do raise the price of beef to 5 cents—?—A. Increased demand, or less receipts, as the case may be automatically raise the price.

Q. That automatically raises the prices; and that you think is the only method?—A. Is the only practical method that I can see, unless something could be devised to take a lot of surplus cattle out of the country.

Q. We will come to that in a few minutes. You did say, however, when you faced such a situation you had either to get your product at a lower price, or else get more for your finished product; and when you depress the price to 2 cents, you are making the farmer take the end of it that will be profitable to you in the sales to the consumer, are you not?—A. We are not making him take it, that is the market.

Q. That is making him take it?—A. That is, it is the selling price of the product that makes him take that low price.

By the Chairman:

Q. What proportion of the beef that is slaughtered is what you would call good or choice steer beef?—A. Maybe 25 per cent, very small.

Q. And what proportion would be the next grade, and what is the next grade?—A. The next grade is fair to medium, I suppose that might be another 25 or 30 per cent.

Q. All right, what is the next grade?—A. The next grade would probably be a matter of 15 per cent.

Q. What do you call that next grade?—A. Fair.

Q. What is the other 35 per cent?—A. There would probably be another grade in between that grade and these canners and cutters—they take about the tail end of the grade.

Q. What is the proportion of canners and cutters?—A. Offhand I would say 15 to 20 per cent.

Q. Now, just one more: you said a moment ago something about taking a certain proportion of cattle off the market. If we took 100,000 head off the market, would that make the difference that you were suggesting?—A. I think it would take nearer 200,000 head.

Q. That would be about 15 per cent of the number slaughtered?—A. Of the number of government inspected slaughtered.

Q. Yes?—A. You see, only about I suppose 50 per cent of the cattle go to government inspected houses.

Q. Quite so?

By Mr. Senn:

Q. That is what you would call country killings?—A. Yes.

By the Chairman:

Q. Now these canners and cutters, they are really not fit for the fresh meat market, are they?—A. They are wholesome.

Q. I suppose if you stew them long enough?—A. If you have got good teeth, they are a little tough.

Q. They really are not " fresh meat "?

By Mr. Young:

Q. What is the matter with tough meat, we have all eaten it?

The CHAIRMAN: Oh we get lots of tough meat, you can get lots of tough meat in all the grades other than perhaps " Baby Beef."

Mr. YOUNG: You cannot condemn meat because it is tough.

By the Chairman:

Q. I am not condemning it, I am experimenting with it. That would be about 15 per cent, therefore, if we could get rid of that lower class—the tail end, as you called it a moment ago—it would leave about what is required for the fresh meat market in this country; would you agree with that?—A. In general I think probably that would meet the situation, Mr. Stevens. I think you have to give some consideration to this, when you are dealing with percentages these canners and cutters are much lighter cattle—they would run only about 200, 275 to 325 maybe a side. The general butcher shop cattle run about 500 to 550.

Q. Yes?—A. But I think for the purposes of the idea you are developing there, that is correct.

Q. Now, you have good, choice and medium, about 50 per cent?—A. Probably.

Q. Why could not the packers—and the whole business is in the hands of Canada Packers and yourselves, and Burns and a few other small ones—virtually you control the packing business of the country, the largest portion of it—why could not the packers endeavour to raise the price of good cattle that come on the market, and work out a plan to use this refuse in a different way, and thus raise the price for good beef cattle?—A. I am just wondering how these other 15 or 20 per cent of " tail ends " could be used. It seems to me, you know after all in the purchasing public there are a good many classes, and that lower grade of beef is not just so good, it does fill a purpose for someone with small spending power.

Q. Yes, there is a lot to it; still it is not good beef, and it might help to get rid of it?—A. Possibly.

Mr. SOMMERVILLE: It has a very serious effect, undoubtedly, upon the general meat market.

By the Chairman:

Q. How about this red and blue label beef; have you had much experience with that; do you favour it?—A. Yes, graded beef, yes; I am in favour of it.

Q. Have you found it successful in handling?—A. Yes.

By Mr. Sommerville:

Q. Do you favour the grading of all qualities of beef?—A. No, I do not think so.

Q. Why?—A. I think the minute you put a third, fourth, fifth or sixth grade upon it—whatever it might be—the minute you put such grades on merchandise, it puts such merchandise out of business.

The CHAIRMAN: But it would stop that from competing with the good grades, the one and two?—A. Of course it would hurt the producer who owns that kind of stuff.

By Mr. Kennedy (Winnipeg):

Q. From the point of view of profit returns to the packer, is it as profitable for them to handle the poorer grades—the canners and cutters—as it is to handle the better grades?—A. I do not think it makes any difference.

Q. So that, from the packers' point of view you have no interest in eliminating the poorer grade from the market?—A. If it had a beneficial effect on the live stock industry and would help the producer, yes.

Q. I am taking things as they are, to get an expression of opinion from the packers' point of view as to profit returns on their business; is it desirable that the canners be gotten out of the way, or would you just as soon have them?—A. It does not make any difference to the packer; do you mean, are they more profitable than other classes of cattle—no, no difference to the packers.

Q. Just as profitable?—A. Maybe, maybe not; in a general way I do not think it makes any difference as far as the packer is concerned, if it would be beneficial for the live stock industry as a whole we would be glad to see something worked out to take them out of the way, and make a better market for what is left.

By Mr. Sommerville:

Q. Is it not a fact, however, that a substantial proportion of the cuts from these remnants—the 15 per cent called canners and cutters—do go into the market at fair prices, and interfere with the price of real good beef?—A. Not good prices. I think they go into circulation at probably pretty fair prices.

Q. Pretty fair prices. Then perhaps you could tell me what you think of these prices: here we have ten cents a pound for a cutter, that is a pretty good price for any kind of a cutter in the month of April?—A. You say the sale price was 10 cents a pound?

Q. Yes, the wholesale price?—A. Is that the hind quarter or what?

Q. That is the hind quarter?—A. Yes, it looks pretty good.

Q. Yes, for a remnant?—A. It looks pretty good. It may have been a poor cow or something like that. I could not say without some knowledge of the product or some knowledge of the value of it.

Mr. KENNEDY (*Peace River*): I venture to state that it cost the packer at least one cent a pound.

Mr. SOMMERVILLE: Well, live weight.

The CHAIRMAN: What date were you speaking of, Mr. Sommerville?

Mr. SOMMERVILLE: April 12 to 19.

By Mr. Sommerville:

Q. Here is another price. Cutter, $9\frac{1}{2}$ cents a pound, a hind, steer or heifer, so that you can have your choice?—A. What date is that?

Q. April 12, 1934?—A. That sounds like a pretty good price.

Q. Yes; and here is another one: steer hindquarters, cutters, $9\frac{1}{2}$ cents?—A. That sounds good.

Q. Here is another one, one front of beef, cutter, $8\frac{1}{2}$ cents; is that a pretty good price?—A. It don't sound bad.

Q. You are not extending yourself, Mr. Tapley?—A. I have not got the product in front of me. I can't tell.

The CHAIRMAN: I think Mr. Tapley is saying to himself that he wishes he could have a whole lot of them for his concern.

Mr. SOMMERVILLE: Yes.

By Mr. Sommerville:

Q. I see here 8 cents, 7 cents, $8\frac{1}{2}$ cents, 9 cents, 10 cents, $7\frac{1}{2}$ cents, 6 cents, $7\frac{1}{2}$ cents, $5\frac{1}{2}$ cents, $6\frac{1}{2}$ cents; they are pretty good prices for cutters?—A. On the average, they look good.

Q. If those prices were paid, they would compete with what were the better qualities of beef, would they not?—A. To that extent, yes, sir.

Q. Is there any suggestion you can make to this committee that will improve that situation? Because we have had the complaint that the retail trade has been bedevilled by just that sort of thing, that the cutters have been put into the retail stores, and have been sold at cut rate prices and other people demanding good beef for the same price. You have found that to be so?—A. I have heard that, and I have seen evidence of that, yes. But I have not any practical suggestion. These canners and cutters come in and they are made into beef. Some of them are boned out and made into sausage products of various kinds. The hind quarters are cut off and are sold generally to these people that do a lower class meat business, and there seems to be a demand for them. If something was devised to take them out of the way, out of these stores, naturally you would have to buy the next higher grade.

By Mr. Young:

Q. Would they be in a position to pay a higher price? I mean would the customer be in a position to buy the meat?—A. The higher priced meat? Of course, your purchasing power comes into it. If the other meat was taken out of the way, if they wanted that meat, they would have to pay for it.

Q. Suppose they didn't have the money?—A. They would have to buy the next higher grade or buy some other product, buy another product which is cheaper.

Mr. MULLINS: May I ask a question?

The CHAIRMAN: Yes, Mr. Mullins, what do you want to ask?

Mr. MULLINS: I want to ask the witness if it is not a fact that this class of cattle he is talking about got a better price when the old time exporter was on the market, the man who went down the line and took 200 or 300 cattle off the market for export? Was there not a better price for local cattle at that time?

The WITNESS: That is too far back for me.

Mr. MULLINS: It made you step up the line and pay a better price, is that not a fact?

Mr. SOMMERVILLE: Mr. Tapley says he is not in your class. He can't get that far back, Col. Mullins.

Mr. MULLINS: Oh, yes, he can.

By Mr. Senn:

Q. Mr. Tapley, when you were making your estimate of taking 2,000 cattle off the market to keep the market in line with domestic consumption, did you take into account our exports this last two or three years, or is that additional?—A. Additional to the export.

Q. It is additional?—A. Yes.

By Mr. Kennedy (Peace River):

Q. Mr. Tapley, a little while ago you said you would not grade this cutter and canner beef down to say Nos. 5 and 6, because it would hurt the sale of it?—A. That is in the stamping of it, dressed?

Q. Yes?—A. Yes, I did.

Q. Don't you think that the sale of a lot of that stuff as beef hurts the beef trade generally? A person buys that possibly thinking it is fairly good beef, and is sick of beef after that?—A. Yes, I think it would be apt to prejudice people against beef.

Q. By protecting that sort of stuff, by not putting the stamp on it, don't you think you are hurting the sale of the better class of beef?—A. If there is much of that class of beef going into circulation, into the homes, I think it has an adverse effect on the general beef trade.

Q. Don't you think the people who should be encouraged are the people who are purchasing the high class products? If there is any question of protecting one or the other, don't you think that the people who ought to be protected are the people who are purchasing the good product?—A. I think you have to face this kind of situation, Mr. Kennedy: Suppose some scheme was devised in, let us say, government inspected packing houses to take this low priced stuff off the market, or to have it marketed in such a way that it would be plainly indicated just what it is. It seems to me that the quality of that class of live stock that would come to market would not be through the regular marketing channels at all. It would come from the farm, the villages or somewhere and still have to be consumed. You would still get it in circulation, because half of your cattle now don't go through government inspected packing houses. They come farm kill or village kill or small town kill or something like that. I think that stuff would go right around you and still come into circulation as meat.

Q. There is another question I want to put in connection with the surplus of meat products in Canada. There is a surplus of about 10 per cent in hogs, I believe, and about 10 per cent in cattle, roughly. That is Mr. McLean's evidence. I think it was less than that, but put it at 20. We shipped last year to the British market about 10 per cent of what we were entitled to under the Ottawa agreement.

The CHAIRMAN: Of hogs.

Mr. SENN: Bacon.

By Mr. Kennedy (Peace River):

Q. All right, bacon and hams; it works out that way. Why could not the packers of Canada, a half dozen of them, get together and get out twice as many hogs and leave the market for the beef and the rest of the hogs that were left, because all meats are competing?—A. Well, that movement of hogs to the export market has, as everybody knows, advanced the hog market from that low level of a year or two ago up to a very substantially higher level.

Q. Why could they not have sent more hog products abroad or to the old country? The market was there. Why could you not have doubled the export, and have a market in Canada for that much additional beef?—A. In the first place, the quality of your hogs are not good enough yet to ship in the quantities you suggest. I think probably in the last year nearly every packer shipped about all he could, consistent with good enough quality to satisfy that British market.

By Mr. Senn:

Q. I suppose a considerable proportion of higher grade hogs are consumed in Canada, are they not?—A. Higher grade hogs?

Q. Yes, higher grade hogs that would be fit for the British market?—A. They want the best over there.

Q. I know, but don't you think that a considerable proportion of those hogs are consumed here, hogs that would be fit for that market?—A. You are suggesting, Mr. Senn, that the export percentage could be increased by taking another top off the balance of the hogs, let us say, and shipping them export?

Q. Yes?—A. I don't think you want to overlook the fact that the domestic market requires a good grade of bacon also.

By Mr. Sommerville:

Q. That is exactly what Mr. Senn was asking you. Is it not a fact that the domestic market takes a large proportion of the good hogs raised in Canada? —A. It takes its share, yes.

Q. What proportion, would you say? We had an estimate from Mr. McLean. What proportion, would you say, of bacons and selects are required for the domestic market?—A. Selects and bacons, the two tops—selects, bacon and butcher?

Q. Well, selects and bacons?—A. Selects and bacons?

Q. Yes?—A. 35 to 40 to 50 per cent.

Q. Yes, probably 50 per cent?—A. Yes.

Q. Mr. McLean's estimate was substantially higher than that. But it would be, you think, 40 to 50 per cent anyway—A. Yes, I think 40 to 50 per cent, probably.

Q. As a matter of fact, for your finished product in Canada you use selects, bacons, butchers and lights, don't you, for your domestic trade—A. The domestic trade gets the general run of all of our hogs.

Q. Of all of your hogs—A. Yes.

Q. Of all the grades—A. Of all the grades.

Q. We had evidence here that for the old country market you did ship some from selects, some from bacons, some from butchers and some from lights—some products from each of these. Is that not a fact—A. It is possible. I would think that the shipments from the lights would be remarkably small, because they would make a Wiltshire that is too light to be popular in the British market.

Q. But they make cuts, don't they? Don't they make a certain kind of hams that are desirable over there?—A. No. Hams from the light hogs would be entirely too light. The only call we get for hams is a much heavier hog than that.

Q. I think Mr. Wilson submitted to us the sizes and weights of the various grades that came into the English market, and gave us evidence to the effect that the lower weights could only be made from the light hogs, and that a substantial proportion did go over from those light hogs?—A. I think there must be some misunderstanding or confusion on that, Mr. Sommerville, because a light hog, I am sure, would not make the most satisfactory Wiltshire cut for the British market.

Q. They perhaps do not make the most satisfactory Wiltshire cut, but do they make Wiltshire sides from light hogs?—A. Broadly speaking, the British market do not want a Wiltshire side lower than 50 pounds.

Q. I don't care what you say or what the British market wants. Is it not a fact that Wiltshire sides from lights are shipped from Canada?—A. Very limited. As far as I know, we don't ship any. We may ship a few at some of our plants.

Q. You ship Wiltshires from butchers, bacons and selects?—A. A large percentage of selects would go, a smaller percentage of the bacons, and I would think quite a very small percentage of the butchers.

Q. Do you send any of the cuts from the heavies, for any purpose, to England?—A. There may be some hams and some heavy Wiltshires.

Q. If you are using heavies and butchers for the export trade, why are you taking the differentials of one dollar a head off these products that, as soon as they go into the killing room, lost their identity and go into export bacon?—A. Well, in the first place I don't suppose the percentage of butchers, for example, that would go as Wiltshires, would be very large; and you still have an extremely heavy percentage for your domestic requirements. Also, Mr. Sommerville, a certain percentage, as you probably know, of selects and bacons that are paid a higher price are not available for export on account of bruises or for other reasons. So while it is true there may be some butchers taken for Wiltshires, there are a lot of selects and bacons that are not suitable.

Q. Why take off the differentials when you are using them for the domestic trade, much of which is fresh pork trade?—A. A very small percentage of your trade is fresh pork.

Q. You find that to be so?—A. A very small percentage compared to the total.

Q. Why take off from the heavies the differentials, a substantial differential, when you are using such a proportion of them for the export trade?—A. I would say a very small percentage of them are export trade.

Q. Then, in the domestic trade you use them?—A. For the domestic trade we use whatever heavies we need.

Q. And for the domestic trade you use the lights?—A. Yes.

Q. As a matter of fact, the lights are desirable cuts for the fresh pork business, the ordinary butcher shop, are they not?—A. I think they are for some butchers that wish to buy their requirements in the whole hog form as a carcass. But compared to the total trade, the total domestic trade, that percentage is extremely small.

Q. I have never seen the difference, in a butcher shop, between a light and heavy when it came to a loin of pork, have you?—A. I don't think you probably see loins of pork made out of light hogs. They are made out of heavier hogs

Q. All out of heavier hogs?—A. I think in the great majority of cases

Q. We had evidence here of a demand for light hogs for cutting purposes, to make up into fresh hams and into loins?—A. I think, as I said before, that is a demand from butchers who like to handle carcass hogs. But the majority of the fresh meat trade call for their loins and shoulders and other fresh cuts out of heavier hogs, regular butcher hogs.

By Mr. Senn:

Q. Did I understand you to say that very few of the selects and bacon hogs go into the fresh meat domestic trade?—A. Quite a few of them, yes.

Q. You said there were from 40 to 50 per cent of that class of hogs consumed in Canada. Can you give us the percentage that is consumed in the fresh meat trade, your estimate?—A. Offhand, I would say the fresh meat trade might be 20 per cent of the total.

Q. As packers, could you not control that consumption and process it, so that it could be exported?—A. I don't think so.

By Mr. Kennedy (Winnipeg):

Q. From the point of view of profit return to the packers, is a higher or lower general market price desirable, or is it immaterial?—A. Higher, by all means.

Q. Let me get that clear. Then the higher the general market price is, the more profitable the business is to the packer?—A. Let me put it this way: The higher your general market is, the more favourable your expense ratio is to the value of your product. When products get too low, your expense, relatively, is too high; and that is very bad in any business, I think.

By the Chairman:

Q. Going back for a moment to these cutters and canners, I sent out for the market quotations in the *Mail and Empire* of April 12, and I find that cutters and canners are quoted on the live stock market that day at $1 to $2 a hundred. Now, having in mind that quotation for the live animal on April 12, I ask you what effect has it on the fresh beef market when the same class of beef, cutters, are sold on the 13th, 14th or 15th—I have others here—at 7½, 9½, 10, 8, 6½ and 6 cents a pound? What justification could the packer or processor give for a situation of that kind?—A. I think those quotations you are reading there, down to 6 cents, your low figure, are for a grade of animal higher than canner or cutter.

Q. I am advised that they are for the canner and the cutter.

Mr. SOMMERVILLE: That is what the evidence is. They are taken under that name from the records.

The CHAIRMAN: Yes, from the records.

The WITNESS: I can't check with that.

By the Chairman:

Q. The point I am getting at, Mr. Tapley, is that it looks to me as though the packing industry were buying those low priced animals, exceedingly low priced animals, and a substantial portion of the beef from them is going into the retail stores in competition with the better class of beef. Obviously no retail store—take the chain store which nowadays does so much of your distribution—can put on a display of this cheap beef and then expect to get a fair price for the good beef alongside of it, nor can the butcher next door to him expect to get a fair price for the higher grade even. Therefore I am asking this question of you: Does not that practice demoralize your whole beef market and result in the farmer getting for a finished steer a ridiculous price? For instance, choice steers paid only $5, which was very much better, or somewhat better than they were before that; but on April 12, steers, good and choice, were $5 to $5.60 in Toronto. Obviously the farmer is not getting anything near a fair return for that class of beef?—A. My opinion on that, Mr. Stevens, is that probably 75 per cent of those canners and cutters go into sausage meat. They are boned out as trimmings. Some of those trimmings, of course, are exported at various seasons during the year. We might say 25 per cent might find its way into the fresh beef trade, as you suggest. I think it would have an effect on the general level of the beef business, as you suggest, to that extent.

Q. We have records for one week here showing a very substantial portion, and they are sales to all sorts of people scattered all over the country. It is not a picked week or anything like that, but it does show a very large quantity of this class of beef being distributed as fresh beef. It strikes me, personally, as most unfair competition for the farmer who raises good beef. That is what I am getting at?—A. I would like to suggest, Mr. Stevens, in order to clear that point up, that a check be made—each packer could furnish it in a very short time, I think,—as to what percentage of these canners and cutters do go into the fresh beef trade; get the disposition of it, of all your canners and cutters, what happened to them, where they did go. Then we can find out exactly how much it is influencing the higher class trade.

By Mr. Kennedy (Winnipeg):

Q. Mr. Tapley, may you not buy on the classification of canner and cutter as a packer, and yet when you put it into the fresh beef trade it does not go into that classification at all?—A. A very great deal of it goes into the fresh beef trade as hind quarters, does not go in as side. It is not a grade at all. It

is just a hind quarter. The fore quarters and in many cases the whole carcass is boned out but if you come to some of these animals that have a little more quality than the worst of them, then the hind quarters are cut off and sold at quarters.

Q. Would the records of the packing company show just what disposition was made of all cattle purchased as canners?—A. I think so. But if the records as they stand now do not show that, then it would be a simple matter to ask the packer to start a record over a period, to see. Then everyone would have a clear idea of just how important that point was.

By Mr. Sommerville:

Q. Now, while we are dealing with the question of quality, you say that you are in favour of this grading of beef as red and blue label beef?—A. Yes.

Q. Why do you favour it?—A. Because I think it indicates to the housewife, in a very definite form, the quality of the beef. The average housewife, as most people know, is not always a good judge of beef in the butcher store. Some of them are and some of them are not.

Q. But this enables them to determine, or at least to find out whether the beef is good?—A. This enables them all, I think, if they wish, to know that it is good beef.

Q. That is for your blue label and red label?—A. Yes.

Q. Are all those labels put on by a government inspector?—A. They are either put on by a government inspector, or put on by an abattoir employee and checked or supervised by a government inspector.

Q. Are there any exceptions to that?—A. There may be, I don't know of any.

Q. Is it not a fact that certain chain stores have these marking machines themselves, and they put the red and blue label on their product?—A. If they do, it is done at the packing house. As far as I know, they don't, I think all that branding is done by the packer under the government inspector's supervision.

Q. That is, it is put on, you think, by the packer and the inspector goes about from time to time to inspect the carcasses, to see if a particular carcass bearing that label answers the requirements?—A. Yes.

Q. Of course, he does not examine all the carcasses. He can't do that?—A. He can't do that. In addition to that, these inspectors, I understand, go around the stores and shops and check the grading and branding as well.

Q. There is just one inspector in Toronto, is there not?—A. One, yes.

Q. There is one in Toronto, and he checks on the grades at the abattoirs at Toronto, and all the stores in Toronto?—A. Yes.

Q. And you never heard of any of the chain stores having these marking machines with which they put the label on themselves?—A. No, sir.

By Mr. Senn:

Q. Mr. Tapley, did you ever hear of a concern putting in their window: "We sell red label or blue label beef," and then they have five or six different qualities in their store. Presumably a customer comes in and expects he is getting either blue or red label beef and he may be getting another quality entirely?—A. Well, I presume there are stores that cater to several classes of trade and they will have some, let us say, blue brand beef and they will have beef not branded. They will have both in the same store, I think, yes.

Q. Don't you think that that practice is detrimental to the interests of the trade generally?—A. No, I would not think so. I think in the final analysis you have to depend on the reliability of your butcher.

Q. If you had all the brands of beef graded, the customer would have no difficulty in knowing what brand of beef he is getting?—A. That is true, but I think it would hurt the saleability of your lower grades. If that is satisfactory to the producer, of course that is another matter. But I am quite sure, in my own mind, that it would hurt the sale of those grades.

Q. You think it would not be in the interests of the producer himself to have all of these graded?—A. I don't believe your producers that have these other grades have come to the point yet where they could stand that kind of campaign.

By Mr. Sommerville:

Q. You have government graded poultry?—A. Yes.

Q. And the producers are getting the benefit of that?—A. Yes.

Q. And you have government graded eggs?—A. Yes.

Mr. KENNEDY (*Peace River*): And hogs, and wheat.

By Mr. Sommerville:

Q. You have government graded hogs?—A. Yes.

Q. And many other products are graded for the producer?—A. Yes.

Q. Why stop at beef? There is no government grading of beef of any kind, except the carcasses you have referred to as red and blue label, is there?—A. That is right.

By the Chairman:

Q. What would happen if we were to prohibit the use of these cutters and canners in the fresh beef trade, and say they could be used only for sausage or other purposes?—A. Nothing would happen as far as the packers are concerned. But as I pointed out to Mr. Kennedy a little while ago, I think, Mr. Stevens, that possibly might cause these lower grades, canners and cutters, to find their way to the market without going to the packing houses. As far as the packers are concerned, I don't think it would make any difference.

Q. You mean through local butchers?—A. Local butchers, and from the product of the village markets, et cetera.

Q. Is it not true in the business generally that the local butcher is finding the modern method of merchandising through the large packing concerns his chief competition?—A. Yes; or you might reverse that.

By Mr. Sommerville:

Q. You find that the little local butcher is still in existence?—A. Yes, we find that, and it is particularly so in the last two or three years. We find our toughest competition is these small butchers that buy a few head in the country and bring them in and kill them in the outskirts.

By the Chairman:

Q. Well, that is encouraging. But I want to get back to this point because, although I won't say I am convinced, I think it is rather impressive evidence, if you like, that the price of this lowest class of beef being retailed on the market as fresh beef is fatally affecting the price to the farmer for his decent beef. I can't help but be impressed with that thought. If it were defined in some way so that a person would know they are getting the most inferior type of beef when they were buying, it would not be so bad. You must know, from your experience in this, that when beef is displayed in a chain store, which is a large distributing agency to-day, the average buyer that goes in there cannot discriminate between a decent class of beef and the poorer class. It all looks about the same. Unless they are trained in choosing a type of beef,

they won't know it. Yet that one cent paid for these canners and cutters, or $1\frac{1}{2}$ and 2 cents in Toronto, has a substantial influence in setting the price for the best beef that goes in there, first class stock, well finished. Is that not correct?—A. I don't really believe that it has quite the effect that you seem to think, although I do think it has some effect. I don't see how it can help but have some effect. But as a rule, these cheaper cuts go to stores that cater to a different class of trade.

The CHAIRMAN: They cater to every class of trade. You can't tell me much about that, because I used to own them for many years. That class of store we are talking about, the ordinary chain store, is catering to every class of trade to-day.

Mr. FACTOR: He did say that only 25 per cent of the canners and cutters go to the retail trade.

The CHAIRMAN: Quite so. I am not saying that all the beef sold there is of that class.

Mr. KENNEDY (*Peace River*): As fresh beef.

The WITNESS: It has been my experience, Mr. Stevens, that the ordinary chain store does not buy that class of stuff at all.

By the Chairman:

Q. It does not?—A. No. That is not my experience or my understanding. I don't think the ordinary chain store buys canners or cutters.

Q. Where is it sold?—A. It goes to some of these co-called cut-throat stores, singles or two or three.

By Mr. Sommerville:

Q. Cut-throat butcher shops?—A. Yes.

Q. With all the electric lights and the high signs outside?—A. Yes.

Q. And cut up to look very attractive in the windows?—A. Yes.

By Mr. Young:

Q. May I ask a question there about these canners and cutters. From what kind of cattle are they made?—A. From what kind of cattle?

Q. Yes?—A. The poorest kinds that comes off the farm.

Q. I mean, they are dairy cattle, are they not?—A. Mostly dairy cattle, yes.

Q. And old breeding stock?—A. Dairy cattle or may be other cattle that have not been extra well fed, that didn't have much to start with; and they come on in with the others. But a good many of them are dairy cattle.

Q. Is it practical to stop people from raising them altogether?—A. That is a problem for the producer.

Q. Where you have dairy cows that have about outlived their usefulness the dairyman has to have some place to put them.—A. I would not attempt to give an opinion on that. I think that is something for the producer to grapple with, That is outside my line.

Mr. KENNEDY (*Peace River*): I think the evidence of an Edmonton dairyman was to the effect that it did not pay to haul them to market.

By Mr. Sommerville:

Q. Now, was there any statement that you desired to make to the committee in answer to any evidence that has been given, Mr. Tapley?—A. No, sir.

By Mr. Kennedy (Peace River):

Q. I would like to ask a question on the matter of hog products, or hams and bacons being shipped to Great Britain under the Ottawa Agreement. You said that you must hold a certain amount of the select bacon and hams for the

Canadian trade. Why must you hold that in Canada for the Canadian trade?—A. Because the Canadian consumer wants good quality the same as anybody else.

Q. There is nothing wrong with lights and butchers?—A. There is nothing wrong with them, no.

Q. Well now, don't you think then that in view of the very low prices, the ruinous prices we have had, that the packers might have done something more than they did to get rid of a greater amount of the bacon and hams especially view of the Ottawa agreements taking them off the Canadian market and leave a better market for the other kinds that are here?—A. I think the packers have done everything that they could.

Q. Did you ever consider that?—A. I think the packers have done everything they possibly could.

Q. Did you ever consider that question that I put to you, shipping a greater portion of bacon and hams to Great Britain and leaving less meats as a whole on the Canadian market?—A. I think the packers have considered that all the time, trying to get everything they possibly could providing the market in the United Kingdom is reasonably fair over there; it is to their advantage to do so. I know that has been our policy.

By Mr. Sommerville:

Q. Well then, you have been sending 50 per cent more selects out of the country than before you had the Imperial agreements; much more than that of bacons and selects?—A. You mean the export department?

Q. Yes?—A. I think it is much greater than that. As a matter of fact, I think it has been running about 35 per cent of the total government inspected kill within the last year or so.

Q. And what you have removed has been taken up for the domestic market; that was used in the domestic market?—A. That is right.

Q. And what you have removed has been taken up by the butchers, and lights, and bacons that you retained in this country?—A. And?

Q. And the heavies?—A. And the heavies and?

Q. Yes?—A. And some of the selects and bacons that are not suitable for the British market on account of being bruised or something else.

Q. I think the fact that you have removed such a large proportion to the export market has given you a better market domestically for butchers, lights and heavies; have you never considered the question of reducing the differential that you take off the bacons from the farmers since the Ottawa agreements came into effect?—A. Off the bacon?

Q. Yes, the differential is practically the same today as it was two years ago?—A. Virtually.

Q. Yes, and although there has been that big increase in the market you have not passed that back to the farmer in reducing the differential on the grades below the bacons consisting of butchers, lights or heavies?—A. I think the producers—

Q. You have not done that, have you Mr. Tapley?—A. May I answer that in this way: I think the producers have received for their lights, heavies and extra heavies a price in line with the realization price of the products.

Q. Yes, but it is the same differential?—A. It may be about the same differential, but as your export market raises your prices to a higher level your prices for the other go up likewise.

Q. And your price for the domestic product goes up likewise?—A. That is right.

Q. Then why not bring the farmer's differential nearer the realization price?—A. Well, the farmer's price did advance correspondingly with the product.

Q. Oh yes, his general price did, but why not reduce the differential when you had such an increased demand for these grades?—A. Well, there is a very small percentage in these hogs, not more than probably 15 per cent.

Q. 15 per cent?—A. That people buy.

Q. 15 per cent that people buy, but there is more than that, butchers, lights and heavies?—A. You mean lights, heavies, extra heavies, and sows.

Q. I am talking all the way down the line, I am not getting away from any of them, I want them all considered. You have been getting a better price for that product because of the Imperial agreements, have you not?—A. Yes, sir.

Q. Yes, but the differential has not been altered in the slightest on those grades which were brought up in price?—A. Practically none.

Mr. SOMMERVILLE: All right.

By Mr. Factor:

Q. Supposing there was no export market would you apply the differential domestically?—A. The differential below the bacon?

Q. Yes?—A. It applies anyway whether there is a big export market or not. As a matter of fact, the Canadian packers on account of the bad market in England had to go out of the export business for a year and a half or so and the differential still continued.

By Mr. Sommerville:

Q. But that differential had nothing to do with the export market at all, it was a differential fixed ten years ago, was it not?—A. The differential was initiated in the beginning as an incentive to producers to raise better hogs.

Q. That is, the differential at the beginning was initiated as an incentive?—A. That is right.

Q. But the differential below bacon was not initiated with that in view?—A. The differential below bacon?

Q. That was a penalty?—A. Dealing first with the butchers, it was intended to create a second grade there that would give a man something of the benefit of a better price because he did not quite reach the selects.

Q. Yes, but was it not a fact that you started with a differential of $2 for your selects?—A. Yes.

Q. And then that was reduced to $1, the premium?—A. Originally, I think, the premium for selects was on a percentage basis of 10 per cent.

Q. Yes, originally 10 per cent, then it was fixed at $2, and then it was reduced to $1.—A. By the Hog Conference.

Q. And at the Hog Conference you wanted all the premium taken off and the bacon hog made the premium hog, that was what the Hog Conference desired; that was the motion; we had it before the committee.—A. And have no premium for selects?

Q. And have no premium for selects?—A. I do not recall that. My understanding is from the beginning the idea was to give a premium for selects.

Q. However, at that time there was a change and a dollar was fixed as the differential premium on selects?—A. That was fixed—

Mr. KENNEDY (*Peace River*): The proposal was to wipe it out.

By Mr. Sommerville:

Q. Yes, the proposal was to wipe it out, and they succeeded in retaining a dollar. Now then, after that was it not a fact that the differentials below the bacon were put into effect to a larger extent to offset the premiums that were being paid on the select hog?—A. I do not think so.

Q. Now, let me get this clear: Was it not a fact that that differential was an arbitrary amount agreed upon by the packers and put into effect by the packers?—A. On the butchers?

Q. On the butchers, and lights, and heavies, sows, and extra heavies?—A. I think the packers—

Q. Fixed it?—A. Arrived at this differential, but it was not necessarily the same all over Canada.

Q. No, there are some very slight variations?—A. Yes, it is a local proposition arrived at by the packers.

Q. And the packer said: Here is the differential and this is the basis on which we will buy.—A. That is right.

Q. And the seller could not sell except on those terms; that was the fact, was it not?—A. Yes.

Q. And then that continued until the present time, with one exception at Montreal where flat rates were still in force until March; how much are they now?—A. I am not very familiar about the Montreal market.

Mr. Factor: I was wondering, Mr. Sommerville, is it possible to have the premium on selects and then abolish the differential and let the packers pay for what it is worth.

The Chairman: The same as they did in Montreal up until March.

The Witness: You are suggesting to do away with the discounts on butchers, for example?

The Chairman: Arbitrary discounts.

Mr. Factor: Yes, just keeping your premium and selects.

The Witness: It is possible, but it seems to me that in doing that you are taking away the incentive for the man to raise a bacon hog. You have got a bacon hog which has a certain quality value and then you have got a butcher hog on the same market that might sell right up against your bacon hog if you do that, and then you have two men bringing in hogs of different quality, both getting the same price for some reason or other; as far as the packers are concerned it is possible.

By Mr. Sommerville:

Q. Mr. Tapley, are you consistent? You want that penalty continued on the man who grows a heavy hog but you do not want it placed on the fellow who produces a canner or a cutter in beef cattle.—A. I do not object to it being applied to the man that produces a canner or a cutter. I think the man that produces a canner or a cutter should expect to get a low price.

Mr. Sommerville: He gets it.

The Chairman: But you did object.

By Mr. Sommerville:

Q. You objected to the branding because you said that would discourage the buyer, the housewife who would be purchasing?—A. I do not object to them branding; I based the viewpoint on the fact that I thought it would affect those producers that raised those animals. I do not object to it.

Q. At any rate, when this differential is applied there is no brand put on so that the purchaser can tell whether or not that has suffered the differential of $2.50 or whatever it is, whether it is only a differential of 50 cents.

By the Chairman:

Q. Why did the packers insist upon Montreal inaugurating this system of a differential below bacons?—A. I do not know; we do not operate there.

Q. You do not operate in Montreal at all?—A. Except in a limited way; we might buy the odd car, but I am not very familiar with the Montreal situation.

By Mr. Kennedy (Peace River):

Q. Mr. Tapley, do you not think the abolition of the $2 premium on hogs in 1927 or 1925 is one of the chief reasons for the shortage of the right kind of hogs bought for the British market?—A. You are suggesting if that had not been changed we would have had more selects?

Q. Yes?—A. I am rather doubtful of that although on paper it might appear that way; I will agree with you on that. The larger the incentive the more spur there should be to raise more of the better hogs.

Q. Now another question: Why is it that while Canadian bacon exported to the British market about the time the Ottawa agreements were signed was on a par with Danish bacon—there was very little spread—but after a short while there was quite a spread between Canadian and Danish bacon; what is your explanation of that?—A. I think that is fairly simple, Mr. Kennedy. There was a large volume of Danish bacon going to the British market and a small volume of Canadian bacon. Naturally they would sell pretty close together with that kind of supply situation. As soon as the quota went into effect the volume of Danish bacon became very much smaller while the volume of Canadian bacon was very much larger, so it is natural—

Q. But if the quality was up what difference would it make?—A. Well, they have their established trades, you know, they have their following, therefore, they are able to get a better price for it.

Q. Would you agree with Mr. Wilson who gave evidence here that some of the bacon going forward from Canada was not all that it should have been?—A. Yes, I think that is probably correct over the period, but I also understand now that the Canadian bacon going over is of very good quality and giving very good satisfaction, because the packers have gradually improved—

Q. There is no reason then why Canadian bacon should be at all below the Danish in quality?—A. I think it is largely a matter possibly of being patient to the point of finding an increased outlet for Canadian bacon, because after all is said and done each class of bacon in England has its following. We have got to create that following as I see it for the Canadian bacon in order to absorb these increased shipments. Quality for quality, there might not be much justification for a spread, Mr. Kennedy.

Q. There is another statement you made that I think rather needs some explanation. You said something about as the price went up there was less consumption of a particular article?—A. Less than what?

Q. I think you were answering Mr. Young and you said: If the price went up the demand for an article would fall off?—A. Yes.

Q. Is there a noticeable falling off in pork to-day?—A. In pork?

Q. Yes?—A. Yes sir.

Q. Will you tell me why it is then that I can get 7 or 8 cents from a farmer at Edmonton for pork and 4½ or 4·75 a pound for best quality beef steers?—A. I do not know quite the point you are endeavouring to develop.

Q. Well, the point is this, that the price of hogs has gone up, and the demand for pork has been at least sufficiently strong that there has not been any falling off?—A. Oh, on export it is very strong.

Q. No, domestic; 90 per cent is still sold in Canada?—A. I think your domestic demand will go down for your product as your price advances.

By Mr. Sommerville:

Q. We had Mr. McLean's statement and I think he said 90 per cent of the pork in Canada, of the hogs in Canada were domestically consumed?—A. He was referring to farm kill, butcher kill and farm kill.

Q. I do not know at the moment what the reference was.—A. I think so. I think that is what he was referring to. I would say the domestic demand at the moment may be 65 per cent.

By Mr. Senn:

Q. That is of the butcher kill?—A. Of the butcher kill.

By Mr. Kennedy (Peace River):

Q. The fact is that the increase in the price has not really destroyed the demand at all?—A. Yes it has.

Q. It has affected it very little.—A. As the volume of the product goes down accordingly your price is based.

Q. Then the price of beef ought to go up with it.—A. The price of beef has responded. I think that is one of the things that has helped the beef market, and the beef market I think will continue to advance.

Q. Well, as a shipper of beef cattle I have not seen it yet except in a very very slight degree.—A. I do not know about your experience.

Q. I still think the packers are buying just at rock bottom prices, for as low as as they can get, and using every pressure to keep the prices down?—A. I think, if you check up the market, you will find that your good cattle are probably 32 per cent higher than your medium.

By Mr. Sommerville:

Q. You have handed in to us a statement on the storage of eggs, butter and poultry by your firm; is this from the Toronto plant?—A. Yes.

Q. Will you be good enough to furnish us with a statement for all the plants?—A. I will be glad to.

Q. And if you will be good enough to furnish us with a statement of your monthly purchases, and your monthly sales?—A. The same kind of a statement you have there?

Q. No, I will show you the kind of a statement we have from another firm, so we can have them on the same basis?—A. I will be glad to do it.

Q. Now, with reference to the statement you have filed, it appears that in the year 1933 you handled butter to the extent of 527,915 pounds, of which your profits were $6,637.18; or an earning per hundredweight of $1·257 is that correct?—A. I presume so, if it is on the statement.

Q. That earning per hundredweight was after charging the regular storage charges into the butter?—A. That is right.

Q. And that statement of charges included your 6 per cent interest for the investment you had in the product?—A. No, we did not. We have a carrying charge per month which covers the cost of carrying the goods, which would include the storage stocks—interest for that particular product carried that month, insurance and cold storage.

Q. That would also carry part of your plant overhead?—A. No, it might be stored outside; I think most of it was stored outside.

Q. Does it carry part of your administration expenses?—A. That would be stored outside, most of it.

Q. Will you show us how your carrying charges are made up?—A. I have not got any definite break-up on it. I showed, in the margin there, the figure we use—an arbitrary charge of half a cent on butter.

Q. I see here you have an arbitrary charge of half a cent per pound per month on butter, you add that to your price, do you?—A. We add that to get the accumulated cost, month by month, so we will know what the up-to-date cost of the storage product will be.

Q. Now then for eggs, I find for the year 1933 you bought 11,266 cases, your earnings were $5,778.12, and your earnings per case were ·513—that is half a dollar a case on a 30-dozen case?—A. Yes.

Q. Then I find that on eggs you make a charge of 15 cents per case per month, is that a carrying charge?—A. Yes.

Q. Then your storage poultry; you handle 9,524 pounds of poultry, earnings $18,671.93, or earnings per hundredweight of $2·072. And in poultry you have half a cent a pound per month while in storage. Were your poultry shipments western poultry?—A. Some of them may have been; I think most of it probably was eastern shipments.

Q. Your sheet also shows the average price paid in each month for each of these products, and the average price for the product in each case?—A. Yes.

By Mr. Young:

Q. In regard to butter, Mr. Tapley, was your firm requested last fall to dump a quantity of butter which you had on the world markets in order to get rid of it and get it out of the country?—A. I do not know as I get that.

Q. I understand from the Minister of Agriculture that a request was made to large holders of butter in Canada that they dump a quantity of their butter on world markets?

The CHAIRMAN: Mr. Young, that is not a fair way to put it.

Mr. YOUNG: Well, how would you say it? Well, they exported it then.

Mr. FACTOR: Don't you like that word " dump," Mr. Chairman?

By Mr. Young:

Q. At any rate, they were requested to export a quantity of butter even if they took a loss, in order to create an artificial scarcity, and to create a price; is that right?—A. I am not very familiar with that, our produce man would be the one to answer that. I think some butter was exported, two carloads, but I do not know the details about it.

The CHAIRMAN: I think you had better get me to give evidence on that, I could give you some.

Is that all, gentlemen?

Well, Mr. Tapley, thank you very much; you have been a very patient and a very good witness, I think; clear in your evidence.

The witness was discharged.

The CHAIRMAN: Gentlemen, as I told you this morning, unfortunately Mr. McLean was called away but he will be here to-morrow; and I suggest that we start at ten o'clock to-morrow morning, if you will agree to come.

Mr. SOMMERVILLE: Mr. Burns will be here, and a wire has been sent to the Dominion Securities Corporation to have present a representative who is familiar with the Burns financing to answer the enquiries of the committee.

The CHAIRMAN: We will adjourn until ten o'clock to-morrow morning.

The committee adjourned at 5.30 p.m. to meet again to-morrow, June 1, 1934, at 10 o'clock a.m.

HOUSE OF COMMONS, ROOM 368,

FRIDAY, June 1, 1934.

The Special Committee appointed to enquire into Price Spreads and Mass Buying met at 10.30 a.m., the Chairman, Hon. Mr. Stevens, presiding.

Mr. Norman Sommerville, K.C., and Mr. W. W. Parry, K.C., of Toronto, appeared as counsel for the Committee.

The CHAIRMAN: Order gentlemen. The minutes of yesterday record the witnesses heard and certain exhibits filed. We will declare the minutes approved.

Now, Mr. Sommerville, who is your first witness?

Mr. JAMES A. LAW, called and sworn.

By Mr. Sommerville:

Q. Mr. Law, you represent Wilsil Limited?—A. Yes, sir.

Q. What is your position there?—A. General Manager.

Q. How long have you been with them?—A. Since 1930.

Q. Was there any statement you desired to make to the committee in connection with any of the evidence that has been given respecting Wilsil Limited? —A. I think not, sir.

Q. Your company operate single unit at Montreal?—A. They do sir,

Q. And they engage in both the domestic trade and the export trade?—A. That is correct.

Q. And you manufacture all kinds of packing house products?—A. That is correct.

Q. You buy on the Montreal stockyards, and also direct?—A. Very little direct.

Q. Your preference is for buying on the stockyards, is it not; that is your practice at least?—A. It is our practice anyhow.

Q. Perhaps you will give the committee the benefit of your judgment upon this question, as to whether or not you would prefer all the purchases being made on the stockyards, where all the cattle and all the livestock are available, and where all packers have an equal opportunity to bid for them?—A. I would think, all other conditions being equal, that would be an ideal situation.

Q. Yes, and in the interests of the farmer whose stock was being offered, would that not provide the conditions under which he could get the best price? —A. Well, he could feel in that case that he would get as much as his neighbour; I do not know that he would get the best price.

Q. At any rate, there would be open competition between packers, and there would be open selling on all the stock together?—A. That is right.

Q. As a matter of fact, at present the price of livestock, the only published price, is that which comes from the stockyard, is it not?—A. Published price, yes.

Q. And these public prices are the prices which given to the farmer might give him an idea of what values are on the stockyard?—A. Yes, sir.

Q. Then the existence of large quantities of livestock being suppressed and off the market must have its own effect upon that market?—A. Yes, I would think so; although at times when the run on the stockyards is small that may have a tendency to raise the price at that particular point.

Q. Yes, but if you have your stock all going to the yards, you would not have these fluctuations of light and heavy runs?—A. That is correct.

Q. And you would not have these variations between outside buying and buying on the stockyards?—A. That is correct, sir.

Q. Now, in the case of your company, will you be good enough to furnish us with a statement of your entire purchases of livestock for the past two years, by the various sources—that is, direct, stockyards and truck?—A. And divided into?

Q. Divided into the various classes of live stock?—A. Cattle, hogs, etc.

By Mr. Factor:

Q. What do you mean, "All other conditions being equal it would be ideal to buy through the stockyards"; what do you mean by, "all other conditions being equal"?—A. If all the packing houses were situated close to stockyards. There are packing houses at a distance from stockyards. I do not know just how it would affect us if we were in that fix, whether we would advocate buying on the stockyards.

By Mr. Sommerville:

Q. On the other hand, Mr. Law, if you have a packing plant adjoining the the stockyards, and 50 per cent of your entire supply comes into the plant alongside of the stockyard, in reality you are setting up a rival market alongside of the stockyard; is not that what it amounts to?—A. I suppose so, that would make that condition.

Q. And that must affect the stockyard?—A. Oh yes, undoubtedly.

Q. Then, what is the object of encouraging these direct shipments in this way; whereas formerly they used to come to the stockyard, what is the object from the packer's standpoint in encouraging shipments direct to his plant rather than getting them on the stockyard; did somebody start it, and the others had to follow to stay, or was it something that was done for price?—A. As long as I can remember we have had what you call f.o.b. buying; that is, certain drovers in certain portions of the country would have connections with a certain packing house; that drover would say on Thursday, what can I pay for hogs this week-end; he would be told, you can pay so much; and he would try to buy the hogs and ship them to his packer customer.

Q. Yes?—A. That I know has been going on for a long long time.

Q. When you get hogs in this way do you pay the drover a commission on what he ships to you?—A. Well, we do not; we have no drovers of that sort, we do not do it at all—but it is from past experience I am speaking.

Q. Then, your direct shipments; you buy them on other stockyards?—A. Or from Pools where we put in bids.

Q. Then, of course, your direct shipments that you buy on other stockyards do not go into the same class?—A. No.

Q. But when you buy on bids from the Pools, these bids are made for you by local agents?—A. We wire.

Q. You wire the bids?—A. Yes.

Q. Do you pay a commission on those hogs?—A. We do.

Q. To the agent in the area?—A. Yes.

Q. And is that the same commission as is paid to livestock men for the purchase of cattle on the stockyards?—A. It is the same.

Q. The same rates?—A. Yes.

Q. So the cost to you on that operation is exactly the same, as far as the commission man is concerned, as though you bought them on the stockyards?—A. Exactly.

Q. And as reflected in your dressed cost?—A. Yes.

Q. Now, Mr. Law, we had evidence yesterday of wide variation from week to week in the bids of the different packers on these Pool hogs. Can you give us any idea why this week, say, there should be 50 cents a hundredweight difference on bids on Pool hogs?—A. Well, so far as we are concerned, some weeks we feel good.

Q. Yes?—A. And we have not been able to get the hogs from the Pools for a few weeks.

Q. Yes?—A. In that case we may extend ourselves.

Q. Yes?—A. Other weeks we may have had a cable from England, the Domestic market may not be very good, and on the whole we are not feeling very good; our bid suffers in that case, some weeks we do not bid at all.

Q. But that wide variation of 50 cents a hundredweight you never find on the stockyards?—A. Well, that would be natural I think, because everyone knows what the other fellow is doing right on the market.

Q. Yes, but outside there is not the same knowledge?—A. Oh no.

Q. Now, we have had evidence that when live stock is weighed over the stockyard scale, the tickets are marked with the price paid, the grade of the livestock and the name of both the buyer and the seller?—A. That is correct.

Q. And that becomes known to the packing house buyer at once?—A. Yes.

Q. It is a general practice to keep runners?—A. Oh yes.

Q. And in this way the packers know what is going over the scales, and the prices being paid?—A. They are getting quick action.

Q. What would you think of that same system applying to a packing house, where the same information would be available to all others, to the general public and the farming community as well; there is nothing to prevent it applying?—A. You mean, if the individual packing house had to stick up somewhere the price it was paying for its particular lot of hogs?

The Chairman: Apply the same system as now applies to the stockyards.

The Witness: It would not do you any more harm there than it would in the stockyards, I would say; if they know what you are buying in the stockyard it is all right.

By Mr. Factor:

Q. How would you work it, have fellows running into the Canada Packers plant say?—A. Stick it up on your own place.

By Mr. Sommerville:

Q. Such information would be available to government officials, and others, the same as on the stockyards?—A. You might inform the government representatives at the stockyards what you are buying, and so on, if that were desirable.

By Mr. Factor:

Q. You mean, a daily report from the packing house to government representatives?—A. That would be all right, I would say.

By the Chairman:

Q. That would not match what happens on the stockyards?—A. No.

Q. If a packer for instance has 60 or 70 per cent of his hogs coming in direct, which is the usual thing, he buys 30 to 40 per cent or thereabouts on the market; you know what the other fellow is doing with his 30 to 40 per cent, but you do not know what is happening to the other 60 to 70 per cent?—A. Information comes in from the country too, as to what has been paid for hogs at various points. You would be surprised how quickly that information gets around.

By Mr. Sommerville:

Q. You are anxious to get that, all the packers are anxious to have it?—A. Not only the packers, but the man who is operating in the country—he gets a bid from one packer and the chances are he will phone another packer, I am bid so and so, how much do you want to bid at. Information like that gets around very quickly.

By Mr. Ilsley:

Q. Those are men buying in the country, how about the people who are selling?—A. Well, the drover usually has a certain number of farmers in a territory whose hogs he generally takes; that drover tries to do the best he possibly can for the farmers in his area, he has to.

By Mr. Sommerville:

Q. But he is not forgetting himself?—A. He would naturally be in it, he is trying to get the highest price possible.

By Mr. Ilsley:

Q. How do you know about that, how much the farmer knows about what the packing houses are paying for direct shipments; does the farmer know immediately, or almost immediately, what is being paid on direct shipments?—A. Oh, I think they do. I think that the Toronto papers generally show a price f.o.b. country points; they would have that the day after anyway.

By Mr. Kennedy (Peace River):

Q. A lot of the farmers would not get it until the week end?—A. That might be, far back in the country; yes.

By Mr. Ilsley:

Q. There are some places in the West where they are not getting it quickly?—A. A lot of them are securing it by radio now.

The CHAIRMAN: Those are stockyard quotations collected by the Department of Agriculture.

The WITNESS: Not necessarily, in Toronto the f.o.b. price is in the papers, and that is the price paid in the country station.

By Mr. Factor:

Q. You mean, by the packer?—A. By the packers, or their representatives.

By Mr. Edwards:

Q. Would it not be a fact that there would be a natural tendency on the part of the drover to do the fair thing by a group of farmers whose product he takes, because if he did not, he would only last so long, would he not?—A. Oh yes, because he has competition, and he has to get the best price possible for his farmers.

Mr. ILSLEY: In the farming community of which I am speaking, news of prices travels like lightening; take with respect to the purchase of farm products of almost any kind, and I was wondering if that was general throughout Canada. I am not speaking about live stock at all, but rather of such things as apples, potatoes and the like. The buyers make an offer, and almost immediately all the people in the vicinity know just about how much his offer is.

By Mr. Sommerville:

Q. That may be, in a seasonal crop; but with a day to day product, such as butter, eggs and live stock, the situation is different; they have got to be advised from day to day or week to week—there are variations?—A. You would be surprised how well they are posted, and how quickly that information gets back.

Q. At any rate, the farmer has no one representing him when the deal is made between the drover and the farmer in the country?—A. That is so.

Q. But on the stockyards he has a commission man thoroughly familiar with market requirements?—A. That is correct.

Q. Now then, if the packing house purchases were unknown to the commission men on the yard, would they not be in a better position to gauge the market than they are at present when he does not know what you have purchased outside of the market?—A. As a rule, they do know; not in our own case, but in other cases—the price is given probably two or three days ahead of time.

Q. I am not talking about price, I am talking about quantity?—A. If they could have a man checking up on that?

Q. Yes, but we have had evidence that very large quantities come by truck in some classes, and that this truck business is increasing?—A. Yes.

Q. And that because of the existence of that truck business buyers will remain fairly quiet on the early market, staying off until afternoon, until they know what is coming in by truck. This buyer has his knowledge of what the supply is, but the seller has not; is not that a fact?—A. I do not know just what the conditions are in other markets, in Montreal the volume coming by truck is not very great, and in the winter it is practically non-existent owing to road conditions.

Q. Then you cannot speak about that?—A. Not accurately.

Q. With respect to Montreal, can you tell me: we had some evidence here that in the month of March you were all being made to enforce the hog differentials on the Montreal market?—A. Yes, sir.

Q. What is the system that is working there now?—A. The same as is in existence all over Canada west of Montreal.

Q. Then you have been successful in having the hog differential apply on the Montreal market?—A. To a degree.

Q. To what degree?—A. I understand that there are some hogs still being sold flat, or approaching that condition, to some of the smaller operators.

Q. But your packing company, and the Canada Packers, at Montreal, insist on buying them only on the basis of the fixed differential below the bacon?—A. Yes, sir.

Q. And that has been in operation since March 12 last?—A. About that time I would say.

Q. And do you insist also on getting all the grades, you do not allow them to sell out the grade below bacon and then take the premium and bacon at their value?—A. No—well, that has been done, but it is not a general practice.

Q. You do not encourage it?—A. No.

Q. You discourage it?—A. Yes, sir.

Q. Why do you insist on them giving you all the grades, when as a matter of fact the most desirable grades are bacon and select, particularly for the export market?—A. Well, we are in the Domestic trade as well as the export; and I would like just to put in an idea: while we pay a dollar a head premium for selects that does not mean that that particular hog is worth a dollar more than the hog of the grade below.

Q. What do you mean by that; apparently that is a differential that is put on for that very purpose, showing that it is worth more and encouraging the farmer to grow more?—A. Well, the latter part of that is correct; the purpose of encouraging the farmer to grow a better class hog.

Q. But you say the select hog is not worth a dollar more than bacon?—A. Than the next grade.

By Mr. Senn:

Q. How much is it worth then?—A. I do not know that an exact figure can be put on that.

Q. Is it worth any more?—A. Oh yes, I would say it is.

By Mr. Kennedy (Peace River):

Q. Does that mean that selects should go down, or that bacons should go up?

By Mr. Sommerville:

Q. I was just going to follow that up. Mr. Law, does that mean that the select should go down, or that the bacon should go up to the same level as select?—A. No, sir.

Q. What does it mean then?—A. The whole proposition is that some years back the quality of hogs coming on the market was not good, and it was thought that some effort should be made to improve the quality of hogs in Canada.

Q. Yes?—A. Now, a method was devised—say roughly—of paying the man who produced a good hog a little more than the man who does not, and in that way tone up the general quality of hogs in Canada?

Q. Yes? —A. Because a certain differential has been placed on the different grades that does not mean, or could not mean I think, that those particular hogs were just exactly worth so much less or so much more.

By the Chairman:

Q. Would you say, Mr. Law, that a light hog or a butcher is worth a dollar less than a bacon hog?—A. No.

Q. Why do you insist on paying the farmer a dollar less? —A. For the reason that a certain system has been devised with an attempt to improve the quality of hogs, and we say we will say we will pay you so much more for an extra good hog, and so much less.

Q. But for its use a good butcher hog is just as good a hog as a good bacon hog?—A. No, there is a little difference —there is some difference.

Q. Well, for its use in the fresh meat trade?—A. Well, a pork loin from an average butcher might work out as well as a pork loin from an average bacon, but an average butcher hog is not as nice a quality as a bacon.

Mr. Sommerville: We are not talking about form, we are talking about uses.

By the Chairman:

Q. What is the differential with the heavy, for instance?—A. I think it is a dollar, I forget exactly; 50 cents a hundred, I think it is, on the heavy.

Q. It is more than that; oh my gracious, yes; it is a dollar and a half, or two dollars.

Mr. Sommerville: On heavies it is 50 cents a hundred.

The Chairman: Below what?

Mr. Sommerville: Below bacon—a dollar on a hog weighing 200 pounds.

The Witness: If it weighs 250, it is just so much more.

The Chairman: It is a dollar, is it?

By Mr. Sommerville:

Q. Let me see what it is in Montreal, it varies a little in different places. In Montreal your premium is a dollar a head of bacon on heavies; on butchers it is a dollar a head below bacon; on lights it is 50 cents per head below?—A. Per hundred pounds.

Q. I think they have got this incorrect—this table on page 2242 is 50 cents a hundred lower on heavies; then it is a dollar a head?—A. On heavies it would amount to probably $1.25 or $1.30.

Q. And on extra heavies it is $1.50, isn't it?—A. Yes.

By Mr. Senn:

Q. Do you really believe it is very necessary that we should have a larger percentage of bacon and select hogs?—A. If we are to get into the export market and improve our position there, it is very very desirable that we get a better hog.

Q. Do you think that this system of premiums and discounts is having a beneficial effect along that line?—A. On the quality of the hogs?

Q. Yes?—A. Oh, I think so.

Q. Why is it, it has been in vogue some 12 or 15 years, we only have a percentage of anywhere from 15 to 20 per cent of bacon coming to market yet? Do you give any reason why there is not a larger percentage to-day, if this system is working out satisfactorily?—A. No, I could not give you any reason; I might give you an opinion.

By the Chairman:

Q. Give us your opinion, we would like to have it?—A. This story is pretty wide spread, but for a few years the prices of all products were very low; and we know that for a few years we were out of the export market, and I do not think that the farmers exercised the care that they might have at that particular time owing to the low prices. But now that prices are higher and prospects look brighter I think there is very much keener interest amongst the producers in regard to improving the quality of the hogs; and I think we are getting very very rapidly—

By Mr. Senn:

Q. Mr. McLean made the statement when he was before the committee that there were certain reasons why the price of hogs had increased, and the hog industry was in a different position to-day; he also made an estimate of the value of the changes to the farmer. Have you read his evidence on that?—A. In a general way, I have heard it.

Q. Do you agree with him as to the reasons why prices on hogs have increased; that is, as a result of the Ottawa agreements?—A. Oh yes, there is no doubt about that; to-day the basic quotation at Chicago is 3·5 cents per pound, while at Montreal it is 9·25 cents.

By Mr. Ilsley:

Q. Those are different quality hogs?—A. The difference in quality would not affect the price, I would say, a quarter or a half cent.

Q. Just for information, do they not in the United States get some more money out of their hogs as the result of a processing tax or something?—A. The United States government collect from the packer a certain amount per pound for every hog that he processes, and that money in turn is used amongst the farmers for certain purposes, I think on crop reduction and so on, but if the American packer exports that product he gets back—

Q. But does not the fact that the packer is taxed for the benefit of the farmer to reduce his production reflect itself in the price that is paid in the stock market?—A. Well I don't think so. There is a certain fixed figure that the packer has to pay the government on every hog he buys.

Q. Yes, therefore he pays less on the stock market; the farmer gets part of that back through the price offered on the hog market and, therefore, the price offered on the market is, to some extent, influenced by the process tax, is that not right?

The CHAIRMAN: Lessened by the processing tax.

By Mr. Ilsley:

Q. Yes, lessened by the processing tax.—A. Well I do not know. That certainly is not the purpose of it.

By the Chairman:

Q. In other words every packer over there passes it back to the farmer? —A. No, he does not pay it back to the farmer.

By Mr. Ilsley:

Q. The government passes it on to some of the farmers?—A. Yes.

Q. Perhaps there is some answer to it, but if he has to pay a substantial sum to the government in addition to what he pays the farmer on the stock market and some of the farmers get that money then that set of circumstances means lowering the price that is offered on the market?—A. I would not say so, because if to-day the American producer or packer had free access to the market in Great Britain his market would open up.

By Mr. Senn:

Q. Could you tell us, Mr. Law, how substantial that tax is, and what it would mean per pound?—A. I know that on pork loins it is 5·15 per one hundred pounds.

Mr. SOMMERVILLE: That is on loins.

By Mr. Senn:

Q. Yes, but on the hog to the farmer?—A. On the hog it must be somewhere in the neighbourhood of two cents.

Q. And you say that is returned to the farmer?—A. Through some process the government has fixed.

The CHAIRMAN: To some farmers.

By Mr. Edwards:

Q. But the producer of the hog does not necessarily get it?—A. I would not say that.

Q. The same as the differential between the Chicago and Montreal markets, as I understood you the Chicago market is about three and one-half cents and the Montreal market nine and one-quarter cents, and that is due very very largely to the increase in exports?—A. Entirely due to our free entry to the British market at the present time.

By Mr. Senn:

Q. There is an opinion expressed quite frequently that the type of hog that is used in Denmark would be more suitable for the bacon trade, particularly for the export trade, than the type of hog that is raised in Canada. Have you any opinion to offer on that?—A. Well, the bacon producers in

Denmark for years and years have concentrated on producing a hog that will produce bacon that will satisfy the people in England, and their hogs are largely one type. It is a small country and they have very tight control on production and killing and everything else.

Q. They have very strong control?—A. Yes. In this country the hogs are not all of one breed or type; they vary greatly, and it would be a big task, I would think, to put into force any control that would make the farmer grow the accepted type of hog that is needed for the British market.

Q. Would that be as economical a hog to raise as the Denmark type of hog?—A. The system in Denmark, I think, has shown that the good hog can be produced more cheaply than something that is inferior.

Q. Well, there is quite a large question among the hog producers as to whether that type of hog should be introduced into Canada or not. Do you think that they should?—A. Well, yes, because as I say the market which at the present time is setting the value of the hog, is the market to which we should cater, and that is the English market; whether we ship 10 per cent or 15 per cent, that is the market that is setting the value, and that is the reason that the Canadian farmer is getting such a good price for his hogs to-day.

By Mr. Ilsley:

Q. On those figures do you say that these grades are comparable? I understand that they are not.—A. Within half a cent a pound I would say yes, because an American ham will sell in England within a shilling or so of the Canadian, and in some particular brands will sell for more than some brands of Canadian; and the American ham is a popular article in England.

By Mr. Sommerville:

Q. And that type of hog includes more than our grade of premium?—A. Oh, yes.

Q. It covers premium, bacon, and butchers, generally speaking?—A. Well, generally speaking, yes.

Q. So that the American hog that is their top price is practically the same as our top three grades?—A. Well, the buyers in the Chicago market—the price there as a rule is not paid with the regularity that we pay here. For instance, hogs here are 9 cents, everybody is paying 9 cents; at Chicago some particular load might be worth 3.40; another load might be worth 3.50, a little better type.

Q. There may be some slight variation?—A. Yes.

Q. But my point is, that in their grading their top price would come within selects, bacons and butchers?—A. I would think roughly that.

By Mr. Ilsley:

Q. I find in Mr. McLean's evidence, page 256, the following:—

> *By Mr. Kennedy* (Peace River):
>
> Q. About what grade of hog would the American live hog compare with?—A. We really have a type of hog, but it would be—the only hog that we have that is like it, is our sow, the fat sow, sows that have been fattened after breeding.

Have you any comment to make on that?—A. Well, I have operated on the other side, and the hogs on the average are fatter. As a consequence, hams sold on the American market, most of them are what are called skinned hams; a certain portion of fat and of what is left—

Mr. Sommerville: Rendered.—A. A good ham. The skin and fat, of course, as you say, is rendered.

By Mr. Sommerville:

Q. What is taken off is rendered and the balance sold as a good ham?—A. The hog is a fatter hog, no doubt, but the eating quality is quite all right.

By Mr. Ilsley:

Q. At page 255 of the evidence:—

> Q. That amounts to $2\frac{1}{4}$ cents a pound, on the hogs they sell?—A. I would rather you would not ask me for details of that, because I do not know.
>
> Q. That would make a difference of $3\frac{1}{2}$ cents a pound to be added to the price of hogs in Chicago?—A. I don't know that.

I think they are talking about the processing tax:—

> Q. $2\frac{1}{2}$ cents to be added to the price of hogs in Chicago that the farmer ultimately receives?—A. I doubt that is the case, but I would not want to say; I don't know.
>
> Q. You do not know anything about that. Do you know of the difference between the American hog and the Canadian hog? The price you quote here is for a Canadian select bacon hog. Is that hog known in the States at all; do they raise them?—A. No.
>
> Q. What kind of hog do they raise down there?—A. A fat back hog.
>
> Q. A class of hog that would not go over in this country.

That is a fact, is it that they do raise in the United States a fat back hog?—A. Well they do not term it in that way. Their regular run of hog will carry more fat than the regular run of Canadian hog.

By Mr. Sommerville:

Q. As a matter of fact, their regular line of top hog would be included in the three grades I have mentioned; many of our heavies would be included in their top run of hogs as well?—A. No. The hogs run up to, I would say 230 pounds or 240 pounds.

Q. However, you say that the differential on premium hogs was fixed with a view to encouraging the improvement of hogs?—A. Yes.

Q. That was under government auspices, that is for the premium?—A. I think that was provided in consultation with the swine breeders and with the government.

Q. So I believe. You say also that there is not the difference in value between hogs below the bacon that is represented by the differential of $1 a head or $1.50 or $2 a head that has been indicated by the Chairman?—A. I would not say it is the difference in value either way.

Q. But the differential below the bacon was a fixed differential, that is, put on by the packer as the basis upon which he will buy, and you say that is not on the basis of value but with a view to encouraging the production of better hogs?—A. That is the idea, sir.

Q. And in the meantime until that ideal hog is produced the packer gets the benefit of that differential?—A. No, sir.

Q. Well, if the differential does not represent the value of the hog, as you have just sworn, who gets the benefit of it?—A. In the first place, we pay a certain amount of money for a given quantity or weight of hog.

Q. Yes?—A. Now, what happens in between does not matter a very great deal to us. What I mean is, if the average run of hogs to-day are worth $9\frac{1}{4}$ cents a pound—

Q. Bacon grade?—A. No, to put through the plant, in that case the quotation for bacon hogs might be 9·25 or 9·35; I do not think that the application of the differentials makes an appreciable difference in the amount of money that actually passes to the farmer for his production of hogs.

Q. Do you not think so?—A. No.

By Mr. Factor:

Q. The farmer does get the $1 or $1.50 less which you say does not represent the actual difference in the value?—A. No, but for the hogs that he produces he gets a certain amount of money, and we pay a certain amount of money—

Q. Suppose the differential was abolished entirely and the farmer would only get a premium on select hogs, would not he benefit in the amount of money he received for his hogs?—A. If he produced a good proportion of selects he would.

The CHAIRMAN: But, Mr. Law, in Montreal, March 12, before you forced upon the stockyard trade the differential system, is it not true that the average price of heavies in Montreal was about 50 cents above Toronto and there was a drawing of heavies to Montreal even from the Toronto area?—A. Well, we have always had hogs come from the Toronto area; we have to pay for our hogs.

Q. We have had evidence here to the effect that there was a higher price paid for those below the bacon grade in Montreal than in Toronto?—A. No. We have always had to bring hogs to Montreal from sections west of Montreal.

By Mr. Sommerville:

Q. Then were you paying less?—A. We had to pay more than would be paid in Toronto, just like we would with wheat or anything else when it is brought east, it is increasing in value all the time.

Q. Oh yes, but this was quite different, in fact, it has been definitely stated in evidence that the prices paid for grades below the bacon grade were higher in Montreal than in any other yard in Canada?—A. That is correct.

Q. That is correct?—A. Yes.

Q. And they were sold on a flat rate?—A. No.

Q. The hogs were all sold on a flat rate before the 12th of March?—A. I would not be sure of that. Sows were not sold; extra heavies, I would not be sure of that, but so far as bacon and butchers—

Q. Butchers, bacon, lights and heavies?—A. Not always. I know that the bacon and butcher hogs were not differentiated between but the others were.

Q. Yes?—A. That would infer I think that in the Montreal neighbourhood there was the demand for a heavy hog so encouraging the shipment of these heavy hogs to that market.

Q. Now, Mr. Law, if you were not paying more for these grades below the bacon grade, why did you force on the 12th of March the Montreal market to come into line with all the other markets in Canada and force the differential upon them?—A. It was represented to us that our action in buying hogs flat on the Montreal market was detrimental to the general program of improvement of hog production in Canada.

By Mr. Ilsley:

Q. By whom, who represented that to you?—A. The Department of Agriculture.

By Mr. Sommerville:

Q. And who in that department?—A. Mr. Pearsall.

Q. With what result?—A. The result was that we fell in line with the other sections of the country.

Q. And it was solely because of that?—A. Yes, sir.

Q. Was it not at the instance of certain other packers who approached you with a view to having you come into line?—A. Well, I don't know, the other packers were interested in it too.

Q. But did not the invitation come from other packers to you to come into line and force the same condition upon the Montreal market that prevailed upon the other markets?—A. No, sir.

Q. Was there not a conference held for that puropse. With other packers in Montreal?—A. No, sir. After Mr. Pearsall's visit to us, yes.

Q. Yes. And as a result of this conference then you insisted that the differential take place on the Montreal market as on the other markets?—A. That is correct, sir.

Q. That is your statement?—A. Yes, sir.

By Mr. Kennedy (Peace River):

Q. Does the Department of Agriculture insist on that differential, or is it the premium on the selects that they insist on?—A. The premium is insisted on, but they do not specify what the differentials below are to be.

Mr. KENNEDY *(Peace River):* Exactly, I think that is the point.

By Mr. Sommerville:

Q. As a matter of fact, the Department of Agriculture have nothing whatever to do with the differentials below the bacon?—A. With that amount?

Q. With the amount of it?—A. No.

Mr. KENNEDY (*Peace River*): That is fixed by the packers.

By Mr. Sommerville:

Q. That is fixed by the packers?—A. Yes, sir.

By Mr. Factor:

Q. But the principle of applying the differential in the Montreal market was suggested by Mr. Pearsall?—A. Yes.

Q. Of the Department of Agriculture.

By Mr. Ilsley:

Q. Did you find that having no differential encouraged the production of poor hogs for market at Montreal?—A. Well, I do know that ten or twelve years ago when I first went to Montreal, the hogs marketed there were not very good, and I do know that they have improved.

Q. Without the differential?

Mr. SOMMERVILLE: Without the differential below the bacon.

Mr. ILSLEY: Yes.

Mr. SOMMERVILLE: When they were being sold on a flat rate.

The WITNESS: We paid them a premium for the selects at that time.

By Mr. Factor:

Q. I can see the advantage to be secured by the production of a better hog, but I cannot see how the application of a differential would encourage the production of a better hog?—A. Well, if you penalize a man you are going to make him do something different if possible.

By Mr. Kennedy (Peace River):

Q. Mr. Law, has not the matter of the premium policy of this country been fixed with the object of aiming at the production of that type of hog, and the other grades below bacon and so on are largely accidents; you just have them on your hands as the result of trying to produce a particular type of hog?—A. I would not say that because we know that years ago the hogs coming from the West were not a very good type, but now we are getting really good hogs from the West.

Q. As the result of the premium policy aiming at the type?—A. Well, I cannot say that it is just the result of the premium and no reflex from the penalty.

Q. My question is simply because of this fact that I think the spreads below the bacon, the penalties if you like to put it that way, are not a real factor in producing better hogs; it is the premium on the selects, and I think that was the idea in fixing the premium?—A. Well, as I said before, if you are going to pay a premium for a good article that infers, I think, a penalty for an inferior article.

By Mr. Sommerville:

Q. No, that is the packers' inference. The government's inference was: We will set a premium and therefore they will strive for the premium. And the packers said: We will put a penalty on and, therefore, we will discourage. Is not that the fact?—A. The combination has produced a better hog in the West.

Q. And more money for the packer?—A. Well, I would not say that.

Q. Let us see. During the last five years, you agree with the auditor that you carried into income reserve $714,336.68?—A. Yes, sir.

Q. And then your dividends paid were $68,000?—A. Yes sir.

Q. And your bonds redeemed were $143,000?—A. Yes sir.

Q. And that is an improvement of $925,336.68 out of operating in five years?—A. Yes sir.

Q. At Wilsil's?—A. Yes sir.

Q. That is pretty good work, is it not?—A. I do not figure it to be abnormal, it is reasonable.

Mr. KENNEDY (*Peace River*): Mr. Sommerville, I do not think you brought up the question of the advisability of separating the hogs in the different grades and selling them.

By Mr. Ilsley:

Q. About this question of hog differentials, it seems we will never leave it; but is it true that a farmer is likely to get as much for a butcher hog as a bacon? Is he likely to produce a butcher hog that will pay him better to-day, will he get more out of it?—A. I do not think so. I am not a breeder or a feeder, but my opinion is that it is just as cheap to produce a good hog as a bad one.

By the Chairman:

Q. Would you say a butcher hog is a bad one?—A. Not a bad hog.

Q. Well now, here is some evidence we have, Mr. Law; this is evidence from a Montreal seller, one of the Commission men, Mr. Donovan, I think it is, at page 814:—

> Q. Then your system in Montreal has been selling at a flat rate plus a dollar for the selects, or selling each individual grade as you saw fit, to the best buyer in each grade?—A. Right.
>
> Q. And that has been your practice steadily?—A. Yes.
>
> Q. And how does that compare with the system of selling for a fixed differential, in the return that it makes to the producer?—A. Well, I would say that it returns anywhere from $10 to as much as $40 or $50 per load more to the producer.
>
> Q. Perhaps you could illustrate that with some of your experience this very week. Take some of Monday's sales, Monday of this week, your own sales?—A. Well, on Monday of this week, I can state offhand that I had one lot of 46 hogs that were all butchers. The packer's price was 8 cents a pound for that bunch of hogs, but I sold them to a local butcher who asked for a bunch of butcher hogs, for 8½ cents a pound.

Now you see he got half a cent a pound for those 46 butcher hogs more than would have been given to him by the differential; at that time they were just trying to force the differential on the Montreal market; and he goes on:—

> Q. And on that load the producer got what?—A. Well, $46 instead of $1 a head cut. He got that dollar in there, half a cent a pound. They averaged about 200 pounds.

In other words, they got $1 a head more. Now, that is a tremendous amount to the producer. It may not mean much to a packer but it certainly means something to the producer, and what I cannot quite understand is why the packers insisted in Montreal, after Montreal had for years followed out the practice indicated here, that the differential below bacon should be imposed.

By Mr. Sommerville:

Q. Well, you agreed to do so and you did, in any event?—A. That is correct, sir.

Q. That is the only answer is it not, Mr. Law?—A. Yes.

Q. And it was a packers' differential that was put on?—A. So far as the lower grades are concerned.

Q. Now then, Mr. Law, in Montreal there are packers that do not engage in the general packing industry?—A. Yes, sir.

Q. And they cater to the local domestic trade?—A. Yes, sir.

Q. And they kill and supply fresh meat to the domestic trade in and about Montreal?—A. That is correct, sir.

Q. And if these men wanted to buy all the light hogs from a load they could not do so under the present enforced differential system?—A. Well I would not say that they could not.

Q. Well, it is mighty difficult for them to do so, let me put it that way?—A. Well, they are not divided up as they used to be.

Q. No, they are not divided up as they used to be because you insist upon having the whole load and not take the remnants after they have taken out the lights or the heavies, or the butchers, is not that correct, although the remnants of the load are of the very finest grades, the selects and bacons; you refuse to take them if they break up the load?—A. The remnants are what?

Q. I say that if they break up the load, if they were to give these local butchers the lights and the butcher hogs you would refuse to take the balance even if they were all selects and bacons?—A. Not necessarily, no.

Q. Well, but we have evidence here that you did for a whole week?—A. No.

Q. Well, a man came forward here and said that for a whole week his selects and bacons remained in that yard and he was being penalized because he had sold his butchers and his lights out of the load, and nobody would give him a bid, that is, no buyer for the packers, either yourselves or Canada Packers, would give him a bid on the selects and the bacon hogs that he had in the yard and they remained there from the one Monday till the following Monday, that is sworn evidence, is not that true?—A. I would not like to say, sir.

By Mr. Factor:

Q. Why do you present the argument if you are looking for a good hog, and under a system of that kind you will not purchase a better hog just because the lower grade is taken out?—A. Well, I have already said that the select hog is not worth to us the dollar extra that we have to pay on it.

By Mr. Sommerville:

Q. All right then, you get the bacon— —A. Nor is the butcher hog.

Q. —worth a dollar less?—A. It is not worth it to us, in my opinion.

By Mr. Kennedy (Peace River):

Q. Then how do you manage to make that statement in view of the evidence we have had here that they cannot trace through a particular load of hogs; how does the identity result there?—A. We figure to pay a certain amount for our run of hogs.

Q. But how do you say that the bacon is not worth a dollar more?—A. It may be worth part of that dollar, but I say the premium on select hogs will not be worth the full dollar to us as for the hog of the same weight.

By Mr. Sommerville:

Q. As a matter of fact, when these hogs are bought and paid for on the differential, the differential is applied only for the purpose of settlement?—A. That is all.

Q. And when the hogs go on the killing floor and are killed they lose their identity?—A. Yes sir.

Q. You do not then identify them as selects, bacons, butchers, lights, or heavies, or sows?—A. No sir.

Q. They go right through to the various rooms for the various cutting purposes, and for processing and such like?—A. That is correct.

Q. And do you agree with the auditors that it is impossible to get the exact cost of the various cuts of the animal when once it has been broken up?—A. Yes. There is a simple way of looking at that.

Q. But is that a fact?—A. Oh yes, that is a fact. Other manufacturers manufacturing by-products know what goes into anything they make. We buy a finished article and break it up and it is impossible, therefore, to work it down.

Mr. Factor: It was Mr. Hambly who said he could not get a bid on his bacon or selects for five days because the butchers had been taken out.

By Mr. Kennedy (Peace River):

Q. Has there been a noticeable falling off in the selects since the premium was reduced some years ago; the premium was reduced from \$2 to \$1?—A. I think generally in the country the quantity or the percentage of selects has increased; I think it has been increased.

By the Chairman:

Q. Before you leave that, I was a little bit perturbed a moment ago about Mr. Law's statement that they were advised by the Department of Agriculture to put in this system. I recall that there was some evidence on that before. I just want to call your attention to that evidence, Mr. Law, because I suggest to you that in the light of what you said you would like to reconsider your answer there. In this case Mr. Donovan was under examination, and it was in connection with the suggestion that Mr. Pearsall had written a letter or given some instructions as you suggest; and then the question was asked—I think by Mr. Ilsley—this is on page 820 of the evidence—and Mr. Donovan's answer was:—

> As I understand it, a member of the Department of Agriculture admitted to the Minister that it was his suggestion to the packer that the buying of these hogs flat had a tendency to decrease the number and deteriorate quality, and it was on his suggestion this new regulation was being put in force.

And then there are some further questions followed by examination by Mr. Sommerville:—

> Q. I want to follow that through. When it was brought to the attention of the Minister, I understand from you, that the Minister said that the Department of Agriculture was no party to any such arrangement?—A. No party to any arrangement to discount any grades of hogs.

Q. In other words, the Minister did not agree with any suggestion of any member of his staff; is that the fact?—A. You may take that conclusion. That is the conclusion we came to.

Q. And as a result you subsequently got this letter from Barton?—A. Yes.

Q. From the Deputy Minister, Dr. Barton?—A. Yes.

Q. Which cleared the air for you?—A. Yes.

Q. That you could sell your hogs on the actual grades on their own value?—A. Right.

Q. And that there was no differential as far as the department was concerned?—A. Yes.

Q. And that is the conclusion you came to as the result of your conference?—A. Yes.

By Mr. Factor:

Q. Although an official of his department did actually advise the packers to exact a differential?—A. Not advised them, but suggested that this differential would improve the quality and increase the quantity.

Now, that seems to indicate that subsequent to this so-called advice there was a correction from the Department of Agriculture which left Montreal free to make its own determination that did not force you to inaugurate this system of differential?—A. Well, sir, there are regulations which force us to settle for all hogs on the graded basis.

Q. The bacon premium?—A. The bacon premium—all graded right down.

By Mr. Sommerville:

Q. No, no. Where are these regulations now?—A. I think I can produce them.

Q. I would like to see them. I have never yet seen them, and I have been hunting for them ever since we opened this inquiry. You say there are regulations which require you to settle on the basis of grades?—A. Yes.

Q. That is, a statement that you shall settle on a grade; but the only regulation that fixes any differential really is that which fixes the premium of a dollar over the bacon, is that the fact?—A. That is correct.

Q. Under those regulations?—A. The government has not at any time fixed the amount of the differential on anything below the bacon grade.

Q. Quite; and you have never approved of any fixed differentials that the packers have imposed?—A. I could not say that.

Q. You do not know of any approval?—A. I do not know of any; and I do not know of any to the contrary.

Q. So that when you say you have settled on a fixed grade, you do not have to put a differential below bacons under government regulation; that is your own choice, is not that a fact?—A. I can get the regulations we have on the subject.

Mr. ILSLEY: There is a mystery in this matter because I see on page 821 that according to the narration of what went on at a conference the Minister of Agriculture appeared to think that the regulation required some differential below bacon. The evidence is this:—

By Mr. Sommerville:

Q. When this was brought to the attention of the Minister in conference, the Minister repudiated any such responsibility?—A. Yes.

Q. Or the authority of any member of a staff to do any such thing as that?—A. If you will let me explain a little further, I think we can clear this up. At the meeting with the Minister and the Deputy Minister and Mr. Pearsall, we got to the point that the Minister explained to his

> Deputy Minister and Mr. Pearsall and ourselves, that zero was as much a differential as 50 cents or a dollar. Zero was a numeral, and it was a differential, if you would, or one was a differential. Whether it was zero or $1 a hog, it was still a differential, and complied with the letter of the law...

A. Yes, that is right.

Q. They seemed to think they should put a regulation on according to the differential below bacon?—A. Yes, that is right.

Q. The answer continues:—

> ...Now, the Minister had an appointment; there was a caucus that morning at 11 o'clock, and it was 11.45 then. He left to go and said he would get in touch with us later. We came back to the hotel, and we did get in touch with Mr. Barton about it, and this is the letter. Then, the next day, after our meeting, I do know, the Department of Agriculture called in the packers from Montreal for another meeting, and then they gave us this letter after that.

The CHAIRMAN: Here is the letter on page 818. Just read that letter. I think that covers it.

By Mr. Ilsley:

Q. The letter says:—

> DEAR MESSRS. RYAN AND DONAVON:
>
> This will confirm my conversation with you to-day in regard to hog marketing in Montreal.
>
> It is understood that butcher hogs and other grades can be sold and bought separately, the option to sell any grade of hogs resting with the seller, and the option to buy resting with the purchaser.
>
> I am assured that the packers subscribed to this undertaking. In accordance with the hog grading regulations, differentials are required, but apart from the payment of $1 per head for select bacon hogs, this department does not determine the differentials.
>
> In the interests of the hog industry, this department feels that full advantage should be taken of the provisions for hog grading in Montreal, and the intention is that insofar as may be possible, every effort shall be made to make it effective, in order that the results obtained elsewhere throughout Canada may be reflected in the hog production districts served by the Montreal market.
>
> I gathered that you were in sympathy with hog grading, and I would request your cooperation in this endeavour to improve the hog industry—
>
> Yours very truly,
>
> H. BARTON, *Deputy Minister.*

That bears out what I say, that the Department does not determine differentials below bacon.—A. There is a differential.

Q. But they say there must be a differential?—A. Yes.

Mr. KENNEDY (*Peace River*): Not necessarily a fixed spread.

Mr. FACTOR: Not the amount; but the principle of differentials is apparently according to regulation

By Mr. Sommerville:

Q. Now, according to this letter the Minister had called in the packers from Montreal—yourself and Canada Packers?—A. Yes.

Q. And as the result of calling you in, which was because or a complaint that you were changing the system from the flat rate to the fixed differential method of buying.—A. Yes, sir.

Q. —as the result of that did you not agree that the hogs to be sold on the Montreal market in their own grades, each grade separately?—A. They had the option to sell them any way they liked—that is in various grades; we had the option to buy them.

Q. That is the full understanding of that arrangement?—A. I think you will find in that letter from Dr. Barton that the word is "option."

Q. You had the option to buy them. That is, the seller could sell in grades? A. Yes.

Q. And do you say that the full effect of that is that if he could find somebody to buy them in grades he could sell them that way?—A. Yes.

Q. But you would not buy them in that way?—A. We have since.

Q. Not very often, have you?—A. Well, I do not know how often.

Q. Not if you can avoid it; shall I put it that way?—A. Well, no, I do not say so.

Q. The practice is to insist.—A. To buy full loads.

Q. And not to take grades?—A. Yes.

By Mr. Chairman:

Q. And you refused, Mr. Law,—the packers refused on the occasion of the introduction of this system to purchase the separate grades from the Commission men when they separated them?—A. Well, for a day or two I guess there probably was a little pull between the two ends of the string.

Q. The sworn evidence is that you refused. On page 821 of the evidence I see these words: "We endeavoured to do that on Monday morning, but the packers refused to take them." And then the witness goes on to say: "After they refused on Monday morning, I immediately got in touch with Dr. Barton on the phone, and his department then got in touch with one of the packers in Montreal, and they came out in the market and bought 20 or 30 select bacons from one Commission man, and 40 from another, and 50 from another. That did not by any means clear up the market. They made a pretence of following the agreement." And then it goes on: "Since this happened, Wilsil's, who used to buy anywhere from 1,000 to 2,000 hogs on our market, in three weeks, have not bought 300 hogs." However, you say that has now all been cleaned up, and that you do?—A. Oh, we buy. We are not buying so many just now because of general conditions.

Q. Do you buy separate grades now, or in lots?—A. Mostly in lots, I would say. I think that matter has died down largely.

Q. It had to die down, did not not?—A. Things are moving smoothly.

By Mr. Sommerville:

Q. It had to die down because you refused to buy except on differential? —A. I think, perhaps, they have found out that the differential is not so bad after all.

Q. In other words they had succumbed, is not that what has happened? —A. No, I do not think so.

Q. They fought very hard against it?—A. Yes, they did; but they cannot—

Q. They cannot fight you packers?—A. They cannot tell us that 99 per cent of the country is wrong and only Montreal right.

Q. You were right for twenty years, and they wanted you to continue?— A. No. I would not say so.

Q. Well, for fifteen years then. Why did you have such a change of heart?—A. We may have been wrong for twenty years.

By Mr. Ilsley:

Q. What I cannot see is that you say that the grade of hogs, the type of hogs which were being supplied to the Montreal market was improving during this period, so there was no reason from the standpoint of the improvement of the hogs to put into effect or insist upon a differential system at all; it must have been for a different reason?—A. No.

Q. The department did not really insist on any differential below bacon; they said you could make it infinitely small, and, therefore, it must have been the packers that insisted on it in the face of a condition where the hogs were improving in quality. What did you do it for unless to profit yourselves?—A. I might explain. I think I mentioned when I was in the country ten or eleven years ago the hogs were of a fair quality; they are better now; but the quality of the hogs in the province of Quebec as shown by the records of government grading—the quality has not improved in anything like the degree it has improved in other parts of Canada.

Q. Oh, yes, but remember you are only referring to hogs that are graded and killed at the abattoirs in those records?—A. Graded at the stockyards.

Q. Or at the abattoirs?—A. Yes.

Q. And that the majority of the hogs in the province of Quebec are sold by men who kill their hogs and bring them in, and they are not included in the government reports?—A. No. Of course, that condition as a whole has always obtained.

Q. It obtains to a greater extent than ever I am told?—A. I do not know about that, sir.

Q. That is what I am told, and the evidence given here was that the quality of the hogs in Quebec had improved very substantially according to the Department of Agriculture in the province of Quebec?—A. I have not seen their figures.

By the Chairman:

Q. There is one other thing. Evidence was given to us that the Commission merchants in the Montreal Livestock Exchange used to sell a lot of hogs to the local butchers which constituted a very healthy competition for the packers; that was under the old system?—A. Yes.

Q. Then the packers, under this system, are forcing these butchers now—literally forcing, that is the evidence—I do not say it is right—forcing the butchers to buy their stuff now from the packers instead of going to the market and buying their supplies on the open market?—A. I do not think that is right.

Q. Are you selling to the butchers their fresh meat requirements?—A. The butcher shops. We sell to the butcher shops.

Q. The wholesale butcher?—A. They are still buying.

Q. They are now?—A. Yes.

Q. But the point was that for a time they were getting their supplies from the packers, probably not from you, but from the Canada Packers, and they were choosing them from the rail at cost, is not that a fact?—A. I have heard something of that sort.

Q. And that removed them from the competition on the Montreal market?—A. Yes.

Q. And now, under your system of insisting on getting the whole load, the local butcher cannot buy his lights or heavies or butcher varieties unless he takes the whole load; is not that the fact?—A. No. I would not say so.

By Mr. Sommerville:

Q. I do not know what else can be the result?—A. They are still buying the odds and ends.

Q. Odds and ends. That is perfectly true. You have put it well, I think, Mr. Law.

By Mr. Factor:

Q. Do you still favour the retaining of the principle of the differential below bacon?—A. Now, I happen to be in the packing business, but speaking from my own point of view, if I could I would return to the old system—that is, buying where, when and how you can.

By Mr. Sommerville:

Q. That is very fair; and let the farmer do the same?—A. He is a pretty good trader as a rule.

Mr. Factor: I think the farmer wants to do the same thing.

The Chairman: Is there anything further?

By Mr. Ilsley:

Q. There is a question or two I want to ask about the British market situation. The rise in price in Great Britain is due to what? Is it due to the shutting out of foreign pork products; is that it—placing all foreign countries on quotas?—A. Reducing the quantity which they can ship into England.

Q. Yes, permitting us to ship in two and a half million— —A. Hundredweight.

Q. Per year; and cutting Denmark and other exporting countries down to a smaller quantity than they have been accustomed to shipping?—A. That is correct.

Q. And that was done partly to encourage the production of hogs in Great Britain?—A. That was the avowed object of it.

Q. That was the avowed object. Is it having the effect of increasing the production of hogs in Great Britain?—A. I heard that the production this year will be greater than it has been for some time.

Q. Is it substantially greater? Do you know anything about the proportions?—A. I do not think the increase—it would appear large if it were half a million hogs.

Mr. Sommerville: Because of the English market.

The Witness: Yes.

By Mr. Ilsley:

Q. That would be a large proportion?—A. That would be a large proportion; that would appear to the average person over there as a big increase.

Q. There was a rapid increase in the price of bacon and ham, was there not, after the imposition of these prohibitions against pork products from foreign countries?—A. A funny thing, there was a very rapid decline.

Q. In the price of?—A. Bacon.

Q. Would you say there was an increase in the price of pork and a decrease in the price of bacon? -A. No, there was a rapid decline, a speedy decline in England in the price of bacon, after the quotas were first imposed. That was brought about, I think, by the anticipation in those countries of the quotas and they filled the country with bacon.

Q. That was a temporary condition, was it not?—A. For a month or two, a few months.

Q. But these high prices we are getting the benefit of did not set in until it was over, did they?—A. No. That did not start until last fall, I would say.

Q. The fall of 1933?—A. The fall of 1933.

Q. That is when this amount that they shipped in from foreign countries was reduced?—A. They began to get the effect of the application of the quota.

Q. I was going to ask you one or two questions. When this situation did reach normal, and the effect of this began to be felt, the price of bacon and ham increased in Great Britain, did it?—A. Yes.

Q. Substantially?—A. Yes, quite a bit.

Q. Did that have any effect on the consumption in Great Britain; did it fall off?—A. Yes. It got to a certain height, then we got a rapid decline after that reached the peak.

Q. Do you know the proportion of the decline?—A. From 90 shillings, I think, to 68 shillings. 90 shillings was the top price. We slipped back to 68 shillings in a few weeks.

Q. What was that attributable to—the falling off of demand?—the falling off of demand as the production of hogs increased rapidly in Canada?—A. The supply is very short at the moment, but the information we have is that breeding has been very general and we look for more hogs in the future.

Q. That is high prices. How permanent is that condition likely to be? That is a difficult question, but you have a falling off in consumption and an increase in British production and an increase in Canadian production and that eventually will, no doubt, result in a lowering of prices, will it not?—A. That has always been the—if you pay a high price you increase production; cut the price and you cut production.

Q. So that the farmer would be well advised to consider this situation temporary?—A. If the farmer can watch the swings and get in the right swing.

By Mr. Kennedy (Winnipeg):

Q. Referring to what is known ordinarily as the Ottawa agreements and the increase in our pork exports under those agreements to the old country, how do the exports for the first four months of this year from Canada to Great Britain compare with the exports for the same period a year ago?—A. I have not got the exact figures, but I would say that they would be much higher.

Q. Do you know how much?—A. I have not got the figures.

Q. Would they be substantially higher?—A. Substantially higher.

Mr. Edwards: Nearly three times higher.

The Witness: There are figures available here.

By Mr. Kennedy (Winnipeg):

Q. Is the increase in the exports due to the operation of the agreements, in your opinion?—A. Oh, entirely.

Q. Now, Mr. Ilsley asked you to express a point of view as to how long this improved condition existed—whether it was only temporary or not. Is there any reason to believe that the tendency will not still be along the line of improvement?—A. The agreement, I believe, is for five years, and if the British consumer is willing to saddle the load and pay the high price for bacon, we should have a good time at the expense of the Americans and other people.

Q. And under the operation— —A. Of the quota system.

Q. Under the present operation of the quota system are we having that good time?—A. But if the English consumer wakes up and says, "No, I will not pay twice the price for bacon; I can buy it for half," there may be trouble.

Q. But our exports to Great Britain, under the operation of this agreement, are continually increasing?—A. Oh, yes.

By Mr. Ilsley:

Q. The consumers, you say, may wake up; what about the producers in Great Britain? The tendency of the consumers in other aspects has been to agitate for quotas against the colonies. Is there any tendency to do that against bacon?—A. There is a tendency in Great Britain to complain that the shipments from former shipping countries have been reduced and that Canada has been given a large quota, and that the result has been a large increase in the price of bacon—that is, the Englishman's breakfast bacon.

By Mr. Kennedy (Peace River):

Q. Mr. Law, do you think we could have avoided some of that if we had shipped a greater amount of bacon to Great Britain?—A. Avoided some of the—

Q. Complaint?—A. In regard to the—

Q. In regard to the price of bacon, if we had shipped a greater volume?—A. I think everyone is struggling to ship every side they can.

Q. Now, were you here last night?—A. Yes.

Q. I was asking Mr. Tapley some questions why the packers did not ship more pork products under the Ottawa agreement than they did?—A. I know in our case we have been struggling to ship every pound we could, because on a rising market you cannot help but make a little money.

Q. You said a while ago if the United States could get into the British market they would use a lot of pork products?—A. Yes.

Q. But their pork products do not compare with our bacon and select grades. So why could not the packers of Canada get out more of the pork products from Canada during the last year compared with what the United States people would ship to Great Britain if they could?—A. The United States people ship a lot of different cuts. They have not been shipping any great quantity in the Wiltshire sides; they have shipped lots of hams.

Q. Why could you not do that?—A. We do.

Q. You do not ship as many as you could?—A. Yes.

Q. Well, what place would the United States get in the British market if they could get in?—A. If they could exceed their quota they would swamp us for the particular cuts they ship.

Q. Would they cut you out altogether?—A. Not altogether, but the price would come down.

Q. The point I am making is this: that the Canadian packers were not confined to bacon and certain kinds of hams; they surely could have shipped a great deal more to Great Britain under the Ottawa agreement than they did last year?—A. I do not know. I told you as far as I know in our own case we were shipping every pound we could, and I think most other packers were doing the same.

Q. Did the packers ever get together to see how much they could send, with the object of relieving the pressure or over-supply of beef or pork on the Canadian market?—A. Yes, I remember in one case—I think it was the British government asked that the Canadian government should give them an estimate of the amount of stuff which might be shipped in a given period, and the packers were called in to help the department in estimating the amount of bacon or pork products that would be available in that period.

Q. The amount of bacon?—A. Bacon and pork products. That covered all the subject.

Q. You say there is no more available in Canada to ship than what you did ship last year?—A. I do not know. We shipped all we could that was suitable.

By the Chairman:

Q. Supposing you had run the Canadian market short? You could have run the Canadian market short and left a little larger field for beef?—A. Well, we think that did take place. Of course, we know that the pork we shipped out was not eaten in Canada.

Mr. SOMMERVILLE: Of course, that is—

The CHAIRMAN: I think that is fairly clear.

By Mr. Sommerville:

Q. At the same time the price of beef, the finished steer that was produced in Alberta, was still selling at as low as $2\frac{1}{2}$ and 3 cents for some of the finest stuff ever produced?—A. In the west.

By Mr. Kennedy (Peace River):

Q. Are you a member of the Industrial Development Council for Canadian Packers?—A. Yes, sir.

Q. Now, I get a pamphlet issued by the Industrial Development Bureau, and you have this phrase on it all the time, "Interlocking halves of the livestock industry, the packers and the farmers." It seems to me that the packers have simply passed back to the farmer the catastrophe of falling prices, and there is not a packer that has come here before us who has demonstrated in any way that he really tried to size up the situation and do the best he could. Maybe you can tell me that I am wrong there, and submit some evidence, but I cannot think of any that has been submitted yet. I do not think you looked at this thing from the standpoint of helping the farmer at all, at least I cannot see it?—A. I do not know if the farmer goes out of business we may go out of business.

Q. The farmer is likely to go out of business first.

By the Chairman:

Q. The claim has been made, Mr. Law,—very definitely by packers—that one of their chief concerns is the welfare of the farmer. Now, Mr. Kennedy has asked a very proper question; tell us something that the packer has done to indicate his solicitude for the welfare of the farmer?—A. Well, I do not know, we are always struggling for supplies, especially in the hogs at the present time.

By Mr. Sommerville:

Q. Mr. Ilsley reminds me that we imposed the hog differential; that is doubtless in their interests. Is there anything else you have done to meet the situation that Mr. Kennedy has raised?—A. I do not think I can point specifically to anything.

Q. Because really nothing specific has been done?—A. Well, we are packers, you know; we are working our own job every day.

Q. That answers a lot of questions. By the way, will you be good enough to file with the committee not only that information in volume per head but also in pounds?—A. Head? And pounds in value?

Q. Yes. Will you also submit to us a statement showing the quantities of your exports to Great Britain and the profits made upon them?—A. It would have to be approximate; we do not segregate in regard to profits.

Q. Cannot you tell what you made on your shipments to Great Britain?—A. Not accurately.

Q. Cannot you tell the spread between what you paid for that product and what you sold it at in Great Britain?—A. What we pay for hogs, and what we got for the cuts; we can give you that in detail at any time we got so much for hogs and bacons.

Q. You cannot tell us the exact costs?—A. No.

Q. Of those cuts? Give us that information?—A. We will make it as intelligible as possible.

Q. And your profit on the operation?—A. Yes.

Q. Then, you have filed with the committee a statement of your traffic in butter, cheese and eggs?—A. Yes.

Q. I see here from January 28th, 1933, to April 21st, 1934, you bought butter to the extent of 873,913 pounds?—A. Yes.

Q. You sold 863,832 pounds?—A. Yes.

Q. You filed with us a statement that you paid $194,960.18 for it, and sold it for $202,009.59?—A. That is the gross sale price and the purchase.

Q. What were the carrying charges added per month?—A. None.

Q. None added per month?—A. We do not really carry butter. We buy it from hand to mouth.

Q. You do not carry it in storage?—A. No.

Q. You do not buy it in the spring and sell it in the fall?—A. No.

Q. You bought $16,241 worth of cheese and sold that same cheese for $17,936.80?—A. Yes.

Q. You bought $76,297.29 worth of eggs and sold them for $85,093.45?—A. Yes.

Q. Any carrying charges there?—A. No carrying charges or expenses of any kind in there.

Q. Then they are both gross and net?—A. Gros profit, and other charges have to come off that.

Q. You said a few moments ago you shipped over as many cuts as you could to Great Britain?—A. Yes.

Q. Those cuts would be Wiltshire sides, hams, and bacons?—A. Wiltshire side is the main—

Q. The main——A. —article shipped. Then we shipped hams.

Q. Anything else?—A. Backs, shoulders.

Q. You shipped as many as you possibly could from the product that you bought?—A. Yes.

Q. Some of those cuts would be from the selects and some from bacons?—A. Yes.

Q. Some would be from butchers?—A. Yes.

Q. Some would be from lights?—A. Not many.

Q. The lighter hams?—A. Very few of those.

Q. Or lighter backs?—A. Not so many; not much light stuff for export.

Q. Some would be from heavies?—A. Yes.

Q. And would some of it come from extra heavies?—A. Yes.

Q. Would some of it be from sows?—A. A little.

Q. And from the heavy sows you would get some cuts also?—A. It would be a few hams.

Q. So that for the English market you supplied these cuts from all the grades below bacons?—A. Yes.

Q. Upon which the differential did apply?—A. And of course from the higher grades, too.

By Mr. Factor:

Q. I should like to ask you this: Your operations last year and the year before were profitable, were they not?—A. Not the year before.

Q. Last year?—A. Last year.

Q. I notice that you have 370 employees in your plant?—A. Yes.

Q. And that the average hourly wage is $31\frac{1}{2}$ cents, the lowest wage of any packer except the Canada Packers at Hull?—A. Yes.

Q. Will you give me some explanation as to why the rate is so low?—A. That is the average rate. I think perhaps we have more people on straight time or weekly rates.

Q. I will give you the weekly rate. The weekly rate $20 to $25, 15·41 per cent; $25 to $30, 12·70 per cent; $30 to $35, 1·89 per cent; $35 to $40, ·54 per cent. In other words, there are 28 per cent receiving from $20 to $30 per week.—A. As I say, there may be a greater percentage of our people on straight time than in some other plants.

Q. What do you mean?—A. Weekly wages.

Q. This gives you the percentage of the weekly wage; 28 per cent of the employees get around $30 a week, between $20 and $30.—A. That is what I say. You see, our hourly rates are lower than some other operators. I say that perhaps if some of our people who are working on a straight weekly wage were converted into an hourly rate, it might improve the hourly rate, I don't know.

Q. You have 257 working at an hourly rate and only 113 on the weekly wage?—A. That is a big percentage, I think.

Mr. HEAPS: Is that larger than any others?

The WITNESS: I cannot tell you; I fancy it might be.

By Mr. Sommerville:

Q. We have the weekly rate for the Canada Packers, Toronto. There we find 11·75 per cent are on the weekly rate, and 88·25 per cent on the hourly rate. At Hull, Canada Packers, 80 per cent on the hourly rate and 19·20 per cent on the weekly rate; Canada Packers, Peterboro, 78 per cent on the hourly rate, 21 per cent on the weekly rate; Gainers Limited, 90 per cent on the hourly rate, and 9 per cent on the weekly rate; Swift Canadian, 81 per cent on the hourly rate and 18 per cent on the weekly rate; Swifts, Edmonton, 90 per cent on the hourly rate, and 9·1 on the weekly rate; Wilsils, 69 per cent on the hourly rate and 30·54 on the weekly rate.—A. I think that is how it works out.

Q. Your percentage is higher because in your salary list 60 per cent are on the weekly rate, and 39 per cent on the hourly rate. Notwithstanding the hourly rate of your 257 employees, the average seems to be a very low one, 31 cents, when you take into consideration that covers some people who are making as much as 50 to 55 cents an hour. Here are 10 per cent of your employees who are earning 20 cents?—A. Those are girls.

Q. Here are— —A. Those are girls.

Q. Is there any minimum wage law applied to the packing plants in Quebec?—A. Yes.

Q. What is the rate?—A. Up to a week ago, it was $18\frac{2}{3}$ cents. I think now it is up to 20 cents in Montreal.

Q. Montreal?—A. Yes.

Mr. HEAPS: How many hours a week?

The WITNESS: It used to be 55, now it is 50.

By Mr. Heaps:

Q. They have cut down the hours and increased the salary rates of pay?—The hourly rate, yes, the minimum hourly rate.

Q. But they are getting about the same, $10 a week, as before?—A. About that.

Q. Assuming they are working a full week?—A. Yes.

Q. How often do they work a full week during the year?—A. We endeavour to give them a full week all the time.

Q. How many months in the year do they work?—A. Twelve months.

Q. Do they get 12 months full pay?—A. It is a very small variation.

By Mr. Sommerville:

Q. Approximately full time?—A. Approximately. We try to do that, yes.

Q. The extent of your business enables you to give them practically full time employment?—A. Yes.

Mr. HEAPS: Have you many there working on piece work?

The WITNESS: None at all, I do not think.

By Mr. Kennedy (Winnipeg):

Q. Can you tell me if this recent increase in the minimum wage of the female employees arose from a change in the rates or regulations?—A. I think it was perhaps a change in the application of the regulations by Mr. Francq.

Q. There is a provision in the law for an increase or a reduction?—A. Yes.

Mr. FACTOR: Can you tell me how many male employees you have working on an hourly rate?

The WITNESS: Well, I cannot.

Mr. SOMMERVILLE: Of the 257 how many would be male employees, and how many female employees?

The WITNESS: I cannot tell you from memory.

Mr. FACTOR: Can you tell us approximately?

The WITNESS: If I saw the sheet.

Mr. SOMMERVILLE: The sheet just gives the percentage. Ten per cent are at 20 cents an hour.

The WITNESS: These are all girls, 22 cents—that would leave about probably 88 per cent male employees.

By Mr. Factor:

Q. Of that 257 are male employees?—A. About that.

Q. Even giving them an average of 31 cents, their average would be higher— —A. You have a greater average to work that out on.

Q. What would be their average pay per hour? Can you tell me approximately the average pay per hour of the male employees?—A. It would probably pick it up a couple of points, I think.

Q. About 33 cents an hour?—A. I think so.

Mr. HEAPS: $16 per week.

The WITNESS: About that.

Mr. FACTOR: Do you think that is a fair wage to pay a married man? Most of them are married men.

The WITNESS: I don't know.

Mr. SOMMERVILLE: They have been with you for some time?

The WITNESS: Our employees have been there mostly a long time, family men.

By Mr. Factor:

Q. And earning $16 a week if they work a full week's time? I should like to get your reaction to that. Do you think that is a fair pay for a concern that has made a profit in 1933, a depression year, to pay their working men?—A. Well—it is a matter of general conditions in the neighbourhood.

By Mr. Sommerville:

Q. Why should you come down to the general conditions in the neighbourhood which are so bad, yet the profits are the best you have ever had in your history? Can there be any recovery for this country if companies that are making the largest profits in their history are bringing the level of wages down to the conditions in the neighbourhood?—A. Well, I do not know that we brought them down.

Mr. HEAPS: Has there been any reduction in the pay?

The WITNESS: No general reduction. There may have been some little—there may have been a few adjustments, a few instances.

Mr. HEAPS: What do you mean by a few instances?

The WITNESS: A few men, a few particular jobs that were changed.

The CHAIRMAN: You did not make a general percentage reduction in your wages?

The WITNESS: No.

Mr. HEAPS: Any reduction in salaries in the past five years?

The WITNESS: No, I do not think so.

Mr. HEAPS: Of the executive or any other employees?

The WITNESS: No.

By Mr. Kennedy (Winnipeg):

Q. Let me pursue this a little further, in reference to the reason for the increase in the minimum wage of females, to what do you attribute that recent action?—A. There were some extremely low paid people, low rates being paid in the Montreal district.

Q. That has been in existence for some time?—A. I think—

Q. To what do you attribute the recent action in raising the rate of wages? —A. There was some inquiry, I believe, into some particular industry, and those rates came out, and they were very very low.

Q. You mean it was due to the exposure of conditions?—A. I think so.

Q. By reason of evidence brought out by this committee?—A. I do not know whether it was this committee or some other one; I forget which it was.

Q. It was because of the result being made the subject of the inquiry?—A. That is the idea.

By Mr. Heaps:

Q. How long has there been a fixed minimum wage for female employees in the packing industry in the province of Quebec?—A. We have been observing it for at least a couple of years. I do not know how long prior to that there had been. I know it was not applied to the packing industry at the start.

By Mr. Sommerville:

Q. When the rate was increased from 18 cents, you increased it to 20, as required under the minimum wage law?—A. No, ours has been 20.

Q. I understood from you there had been an increase in your plant—it had been 20 cents?—A. We were a little above the minimum at that time.

By Mr. Kennedy (Winnipeg):

Q. Have you noticed any change as to the more energetic enforcement of the minimum wage law in your province within the last month or so?—A. I have not noticed it, but I would think the officials connected with the enforcement of the act are attending to their jobs.

Q. They are attending to their jobs?—A. I would think so.

Witness retired.

J. S. MCLEAN, called and sworn.

By Mr. Sommerville:

Q. Mr. McLean, you are the president of Canada Packers, Limited?—A. Yes.

Q. In order that we might have the record complete, your company is a holding company?—A. Yes.

Q. And it holds all the shares or is the owner of a number of different companies?—A. Yes.

Q. The Harris Abattoir Company Limited?—A. Yes.

Q. The Harris Abattoir Western Limited?—A. Yes.

Q. Gunn's Limited? Gunn's, Langlois and Company Limited?—A. Yes.

Q. Canadian Packing Company Limited, William Davies Company, incorporated, William Davies Company Limited, Ontario Fertilizer Company, Limited?—A. Yes.

Q. Some of these companies have subsidiaries, have they not?—A. Yes.

Q. You operate now six plants?—A. Yes.

Q. One at Toronto?—A. Yes.

Q. Which is a consolidation of the Harris and the Gunn's plants?—A. Yes.

Q. One at Montreal? Was that a consolidation?—A. Yes, of the Davies and the Canadian Packing.

Q. One at Winnipeg?—A. Yes.

Q. Which is a consolidation of the— —A. It is the former Harris plant.

Q. One at Hull?—A. Yes.

Q. One at Peterboro, and one in Chicago?—A. Yes.

Q. Then, you have branch houses located at Toronto, east and west markets, Timmins, Ontario, Sault Ste. Marie, Sudbury, London, Windsor, Ottawa?—A. Yes.

Q. Quebec, Halifax, Saint John, Sydney, St. John's, Newfoundland, Cornerbrook?—A. That is in Newfoundland.

Q. Charlottetown, Montreal south market, Montreal Hotel supply, St. Paul, Atwater, Mile End, Place Viger—where is Mile End?—A. Mile End is in the east end of Montreal.

Q. Place Viger, Peterboro, Hull, Rutland, Winnipeg market, Moose Jaw, Saskatoon and Fort William?—A. Yes.

Q. Then you have creameries—

Mr. Ilsley: These houses are retail establishments?

The Witness: These are branch wholesale houses, selling agencies.

By Mr. Sommerville:

Q. They are selling agencies in the districts in which they are located? —A. Yes.

Q. Then you have creameries located at the following places: Chesley, Clinton, Grand Valley, Shamrock, Shelburne, Walkerton, Wellington, Wiarton? —A. Yes.

Q. Then, you have— —A. I do not recognize "Shamrock." That sounds more like one of our brands. I do not think there is a—

Q. I beg your pardon. It was given to me as one of the places.—A. I think it is a mistake.

Q. There are seven creameries?—A. I think that is all.

Q. In addition to these, you have cold storage plants at Toronto and Montreal?—A. Yes.

Q. Then you have a wool polling plant at Toronto?—A. Yes.

Q. And you have canning companies?—A. Yes.

Q. How many canning companies?—A. We really have no canning company.

Q. Canning plants?—A. A canning plant at Picton, in which we are interested. We have a controlling interest in the Folkard Canning Company that was mentioned the other day. Folkard is a man who was formerly a canner himself, and with whom we took an interest. His plant was burned down and we supplied the money to build. Then, we have two other canning plants, one at Brantford and one at Peterboro, in our own packing plants.

Q. And then you have fertilizer plants at Toronto and Montreal?—A. And Saint John, New Brunswick.

Q. Do you operate any other company than these?—A. No.

Q. Or have you a controlling interest in any other company?—A. No, I do not think so. All our business is just the business that is a continuation of the four companies which merged into Canada Packers.

Q. Yesterday we had some discussion, and the auditors gave us evidence as to the system of keeping packing house accounts?—A. Yes.

Q. By which all your accounts are kept in departments?—A. Yes.

Q. You have, I think, something like 70 or 80 departments?—A. I think that probably is too many—I do not know—

Q. Whatever it is, 60, 70 or 80?—A. I should say about 40.

Q. I beg your pardon?—A. I think it is about 40.

Q. Whatever it is.—A. It is a large number.

Q. Do these departments exist in each of the plants?—A. Yes.

Q. I mean the packing plants?—A. Yes.

Q. Each of the plants would have these 40 odd departments?—A. Not necessarily all of them, but most of the plants have most of the departments.

Q. Each of these departments makes a departmental return?—A. Yes.

Q. Of the net result of their operations every four weeks?—A. Every week.

Q. Every week?—A. There is a complete accounting return every four weeks, but we have an estimated profit and loss each week.

Q. Would it be possible, or can you produce from the method of your accounting, a consolidated profit and loss statement for your entire operations, similar to the schedule which I show you here? -A. Well, it can be done; we have never done it, but we can produce it.

Q. Let me just understand that. It can be done, but it would be difficult?—A. You mean all these 40 departments?

Q. Yes, and all the company's operations?—A. We have never attempted to do it, because it would be of no value to us.

Q. Would you be put to a great expense in producing that consolidated statement now?—A. At the present time, yes. If we built that up as we went along, when we started in to do it, it would not cost very much to build it up week by week.

Q. Do you agree with the statement of the auditor and of Mr. Tapley and Mr. Law that you cannot get the exact cost; the breakdown system of each of the cuts of hogs, we will say, is an estimated result you get from certain test runs?—A. I should like to answer that question carefully, Mr. Sommerville, just because in the last few days I think that the system of packing house accounting has been made to appear or did appear—nobody had any objective in doing it, but it did seem to me there was a confused impression given as to packing house accounting systems. I think the packing house accounting is a very accurate, meticulous, and illuminating record of packing house operations.

Q. I do not think there is any doubt in anybody's mind, Mr. McLean, it is an excellent system for a person operating the business. What was difficult for the one on the outside to understand is, that in the breaking-down process, your system is different from the ordinary manufacturing system?—A. Not only that, but what I feel is this, I feel that perhaps members of the committee do not understand that any information that you wish about the vital processes of our business is available immediately from our records. I do not think you could ask a question that would not be deducible from our records with a very slight effort. For instance, about this consolidated profit and loss business that has been discussed, it would not be of the least value to you if you had it.

Q. That is what I understand. Most manufacturing firms have it?—A. Yes.

Q. In this case it was different, and that is why there was the question asked in order to understand the difference?—A. Exactly.

Q. In your system of accounting you have those departmental results?—A. I think what this committee is interested in, is a statement of the total cattle operations, for instance. Now, that is all available in our records, and in everybody else's records.

Mr. Kennedy (*Winnipeg*): Easy access.

The WITNESS: Easy access. And the total hog operations. Now, it is true what you were saying a moment ago, that nobody can tell from our records what the exact cost of a ham is, or a side of bacon, because the hog is different from other animals. It is cut up into a large number of cuts, and the only accurate information you can get is the total result on the sale of all the cuts. That is accurate, but I cannot tell you what the exact cost of a ham is, or the exact price of a side of bacon.

By Mr. Sommerville:

Q. Therefore we cannot get the exact spread on each of those cuts?—A. No.

Mr. KENNEDY (*Winnipeg*): Those gross returns are easily obtainable.

The WITNESS: And they are accurate.

Mr. KENNEDY (*Winnipeg*): That is what I cannot understand.

Mr. SOMMERVILLE: I am going to show you how easily available it is.

Mr. KENNEDY (*Winnipeg*): You do not mind my interrupting?

Mr. SOMMERVILLE: No; but I am going to follow it through.

By Mr. Factor:

Q. Is it possible, from your records, which you say are illuminating, to obtain a statement showing the amount of business done, the amount of profits on products sold, how much was paid for material, that is, the live product, how much labour went into it, and the other expenses, showing the net profit?—A. Yes.

Q. It is possible?—A. Yes, quite simple.

By Mr. Sommerville:

Q. Do you mean the gross or the net?—A. Both, everything.

Q. You mean the gross and net?—A. Yes.

Q. Why was it not given to our auditors when they were endeavouring to get it for weeks?—A. They were working on this idea of consolidated statement. We do not keep that at all, and it was not possible. Mr. Shepherd's statement was just an exact statement of the facts. It would take a long long time and would be an almost heartbreaking job to rewrite all our records, because it is a record that is of no value to us.

Q. Let me take that record that you have here. Here I show you departmental profit and loss account showing how your net operating profit of $1,747,725 was obtained. You will observe in that departmental profit and loss account you divide it into meat and by-product departments?—A. Yes.

Q. Now, the very first item is beef; that is a department, is it not?—A. Yes.

Q. That, in this statement, shows a loss of $813,912.70?—A. Yes.

Q. That would indicate that there was a loss in the beef department?—A. Yes.

Q. That, of course, includes the interest which you charged into that department at the rate of six per cent on the amount invested?—A. Yes. All our accounting is done on that basis.

Q. The next department is the by-products department, and that shows a profit of $549,270.82?—A. Yes.

Q. Some of those by-products come from beef?—A. Practically all of them.

Q. So that you would have to add your by-products department and your beef department together?—A. Exactly.

Q. To get the result from that?—A. They are really the same department, but sub-divided for quite simple reasons.

Q. But in your departmental results you show profit and loss?—Exactly. The $831,000 odd is not profit or loss on beef. Those departments all have to be grouped together in order to get the total result of the beef operations. Those subdivisions are made for quite simple reasons. The results of the beef operations are kept in actual practice, and that is the way we use those accounts, from the grouping of that group of accounts.

Q. Let me see, Mr. McLean. Does not that by-products department also include by-products from sheep, lambs and calves?—A. Yes, but the value of those by-products, and the quantity of them, is quite minor.

By the Chairman:

Q. They made a profit of over half a million?—A. Yes.

Q. They can't be very minor?—A. Well, what I say is the value of the by-products from the sheep, lambs and calves.

Q. Oh, yes? A. The by-products account is almost entirely the account of hides and tallow and so on.

By Mr. Sommerville:

Q. Then, the next department is casings?—A. Yes.

Q. That also includes beef by-products?—A. Yes.

Q. Beef casings?—A. That is correct.

Q. And it includes casings from other live stock?—A. Yes.

Q. So that they are mixed together in that department, and produce a net result?—A. In the case of casings it is not so true as it is in the by-products that they are minor. The sheep casings are much more valuable per pound, you see, than beef casings. For that reason, this casings department is carefully analyzed, and the profits divided as between beef casings, sheep casings and lamb casings, and also outside casings which we buy.

Q. With regard to the next department, the sausage and cooked meats department, there is some beef that goes in there?—A. That does not go in this group.

Q. That is the way in which it is set out here?—A. Oh, I see.

Q. It does not make any difference but that is the way it is set out?—A. That is true. All the product that is used in the sausage and cooked meats is transferred into it from other departments.

Q. From other departments?—A. Yes.

Q. And the price at which those are transferred from the other departments will affect the profit and loss of the department from which it is transferred?—A. Yes.

Q. And to which it is transferred?—A. Yes.

Q. Then all of these products, along with many other products from other departments, go into a selling department?—A. Yes.

Q. And in the selling department, some of it may be for export?—A. No, the export stuff does not go through the selling department.

Q. Then some goes into an export department?—A. Yes.

Q. And some goes into a selling department by car routes?—A. Yes.

Q. And some goes into selling through branch houses?—A. Yes.

Q. So that in each of these departments they show their profit or loss on that particular product?—A. That is true.

Q. And in each of these departments they have the products from other live stock than beef?—A. Yes.

Q. You get a net result, then?—A. Yes.

Q. And it may be that in your selling department you have a profit of $100,000 in beef, and a loss of $90,000 in hogs and the net result may be $10,000?—A. That, as a theoretical proposition, is quite possible. Actually, it is not.

Q. Actually what happens is that on some products you lose money, on some products you make money, and the net result is shown?—A. The figures are not so important as that. On any one commodity there would be a loss one day and a profit the next. As a matter of fact, the basis of transfer or the practice is to transfer at practically the market value less the selling cost, and that is pretty well known. In day to day operating, one knows that pretty well. You can see from this statement just how that does work out. The result on the selling department was $16,000, was it not, on total sales of $54,000,000?

By Mr. Factor:

Q. Including interest charges?—A. Yes.

By the Chairman:

Q. Why would you relate $16,000 to $70,000,000?—A. $54,000,000.

Q. There is no reason, is there?—A. No, I am wrong on that, Mr. Stevens. I should relate it to the value of the product that goes through these selling departments. It would not be $54,000,000, but perhaps nearer half of that, or perhaps less than half of that. At any rate, it is very small. The total objective of the system is to make these just clearing departments, and as a matter of fact, they are. Perhaps I can't prove that to you, but I know it, as an operator.

By Mr. Sommerville:

Q. That is, because of your experience you estimate what each department ought to do?—A. Yes.

Q. Take, for instance, your costs. You will add a figure that you estimate to be the figure?—A. Yes.

Q. That you hope in future the market on by-products will produce and the market or cost of your selling will result in?—A. Yes.

Q. And your condemnations may result in?—A. Yes.

Q. And certain other elements?—A. Yes.

Q. And because of that, it is an estimate?—A. Yes.

Q. Until you get to the final result?—A. Yes.

Q. And the final result is reflected in the net profit at the end of the year? —A. Yes.

Q. Is not that the exact situation?—A. Yes, it is. I am just trying to make this absolutely clear to you, Mr. Sommerville. There is one thing I should have said in connection with the by-products account on which, as Mr. Stevens points out, there is a very large profit of $549,000. The by-products are mostly hides, tallow and other offal from cattle. Hides are a thing which we take off to-day and sell perhaps in less than six weeks, but more likely eight weeks from to-day. We always have to estimate. We always have to play safe on the price. The price at which we credit the hides to the beef is a very important thing for us, because it helps to determine what our estimate of the cost of the beef is. If the market to-day is, say, 10 cents a pound on hides, we probably transfer those hides at 9 cents or 8 cents a pound, just because we are not sure they will be 10 cents two months from to-day. By reason of that system, by reason of the fact that we do play safe on these products, we always show a very substantial profit on by-products account, which as you see from the explanation, has to be linked with the beef.

Q. But when you play safe, we will say you transfer those hides at 8 cents?—A. Yes.

Q. That is to say, the beef department got credit for those hides at 8 cents?—A. Yes.

Q. When eventually they bring 10 cents?—A. Yes.

Q. But in the meantime they have been given credit at 8 cents, and their costs are based upon an 8 cent return?—A. That is correct.

Q. And therefore the cost of the beef department is made up of an estimate on hides and on tallow?—A. Those are the two indefinables.

Q. And several other products, that have to be sold in the future?—A. Well, the other products have a more immediate market.

Q. You therefore have a reserve, shall we put it, in your figure of playing safe?—A. Yes.

Q. You have a reserve that adds, for the time being, to the cost of the beef to the beef department?—A. Yes, exactly.

Q. Eventually it will all wash out in the net profit that is returned at the end of the year?—A. Yes.

Q. But in the meantime the price that is charged on your beef is a price based upon this calculated or estimated amount?—A. Yes.

Q. And not upon the actual or net amount?—A. No.

Q. From day to day?—A. It is a safe price because we can't know what the actual price is going to be. The product won't be sold for two months.

Q. Suppose you are giving a price, as you say, to the beef department. We will say you add, for the purpose of argument, $1.35 as being the estimated costs of the beef department's operations?—A. Yes.

Q. $1.35 a hundred?—A. Yes.

Q. That is the estimate. Then on that estimate you will expect the operator to improve or better that condition in the actual net results, will you not?—A. Well, by operator do you mean "salesman"?

Q. I mean the man who is operating the beef department?—A. Yes.

Q. If his costs are put at $1.35?—A. Well, he always sells the beef for as much as he can.

Q. It is not the selling department I am thinking of. I am thinking of the beef operating department, where your processing is done, or where it passes through?—A. Well, I don't think I understood your question then.

Q. Well, when you give this estimate, I think you said this estimate is a safe estimate?—A. Yes.

Q. And the operator who gets it in his particular department will get the net result eventually?—A. Yes.

Q. And he is expected to beat that estimated result in his operations?—A. Yes.

Q. To so operate as to improve on it?—A. The whole system of record and of accounting is to put every man on his mettle all the time.

Q. Then it is true, apparently, from this statement, that is impossible at the time to get your costs in each of these animals?—A. Yes.

Q. And each of these cuts or each of the groups as you go along, except the estimated cost?—A. Yes, we get the cost on each animal. Of course, it is not an accurate cost. We never actually sell our beef at the cost. If you took the trouble to examine our beef sales record, you would always see a minus margin, as we call it.

By the Chairman:

Q. May I just interject there. I don't want to get away from the thread of this, but I think it is apropos. You have shown a loss here of $813,900 on beef?—A. Yes.

Q. I understand this, of course, is a composite statement for the whole year?—A. Yes.

Q. Made up of your twelve monthly reports, or thirteen?—A. Thirteen.

Q. I understand that that loss is consistent throughout those thirteen reports. That is the report I get, or the advice?—A. Yes, that is correct. It would vary some.

Q. If this system of accounting that you adopt is for the purpose of informing you, what is your reaction when you see in the first week, the second week, the third week and so on, these losses disclosed in your beef department?—A. Well, you see, Mr. Stevens, we never consider that beef department except in conjunction with the other departments.

Q. I understand that. But I am asking you what your reaction is to the persistent and steady losses in that department?—A. Well, we are sending out letters constantly to our salesmen. The chief executive works with the head of the department, and the head of the department works through the sales department. We are constantly putting pressure on our salesmen to get better prices for the product on which we are losing money.

Q. All right. The next item, your by-products, shows a profit of $549,000; and I understand that is as consistently profitable?—A. Yes.

Q. Does that not indicate to you—at least, it would to me; I may be stupid and dense—that you are not allowing your beef department a fair return on the products that are passed on from, say your by-products department, such as hides and tallows?—A. I don't think that necessarily follows.

By Mr. Sommerville:

Q. Perhaps instead of the word "fair," the word "full" would be better, not allowing full returns?—A. No, not even that. We consider results in these departments together. The actual result of the beef operations is the combined result of these departments, and that is accurate. That is the real result.

The CHAIRMAN: Yes, plus a portion of the casings.

By Mr. Sommerville:

Q. But you leave out selling?—A. I beg your pardon, selling does not affect it in the least.

Q. Selling does not affect it in the least?—A. No.

By the Chairman:

Q. Leave selling apart. You sell them casings as well?—A. Well, I am including casings in this statement of mine. These accounts all have to be grouped together. The beef results are actually grouped every week. We examine these accounts very carefully at the end of each week. We have taken all them.

By Mr. Factor:

Q. You don't worry yourself if one department shows a consistent loss from week to week?—A. Yes, we do. That is what the purpose of the whole system is, to get immediately after the departments that are not doing well. We have at the end of each week, when we put these various accounts together, an accurate picture of what the result from that week of our beef operations is.

By the Chairman:

Q. I am just going to make one observation. Frankly I can't agree that it is an accurate picture. You may think it is, but I certainly do not; because if you show consistently a loss on beef whereas your by-products show an abnormally large return, it would indicate that the allocation was not accurate. You may say it is accurate, but it certainly does not appeal to me as accurate?—A. I think you are probably failing to get what I say on our beef operations as against this account which we just call beef account. These three combined

accounts, beef, by-products, casings, barrel beef—four accounts, but barrel beef is not important—those three combined accounts each week give us an accurate picture or an accurate statement of what our beef operations have been.

Q. I will grant you that. But if the object is in keeping this system of department accounts in separate compartments—you do that?—A. Yes.

Q. If the object is to get an accurate picture of the cost of that department and the returns to it, then I say at once that inasmuch as two of these show an unusually high profit, and another one shows a calamitous loss, it indicates that there is not a proper allocation. You may just simply take one off against the other and say really they are accurate?—A. In practice, as I have said, we do combine them. There is an object in keeping them separate, in keeping the by-products account, because within that account we charge up the number of hides that go in and credit the number of hides that go out, and keep a balance. We have got to do that kind of thing.

By Mr. Ilsley:

Q. What is the object in debiting it so little for what comes to it from the beef department?—A. I beg your pardon?

Q. What is the object in charging so little for what it receives from the beef department?—A. It is just simpler to do it that way. As a matter of fact, these three departments are one.

Q. "It is just simply to do it that way" is not very satisfactory. What is the reason for charging so little for those products which they obtain from the beef department?—A. I don't think I understand your question.

Q. You said a few minutes ago, I think that for hides worth 10 cents a pound you perhaps charged 8 or 9 or something; and the records show that this by-product department was a very profitable department, made a big profit, and the beef department made a corresponding loss. Mr. Stevens' problem,—and I think it is shared by the rest of us—is why you don't charge that by-products department more rather than group the three together and think of them together?—A. They could all be operated as one department without any differentiation, and the result would be actually the same as what we do.

By Mr. Sommerville:

Q. Is that correct?—A. The only advantage in having the different departments is to make it easier to check the movements and keep the record of your by-products, hide sales, etc.

By the Chairman:

Q. Let me put this to you, Mr. McLean. Is this a fair statement of this system, that you have fixed a definite or arbitrary price for, we will say, by-products and casings?—A. Yes.

Q. And you are satisfied with those, in connection with the beef. You have, on the other hand, fixed what shall be allowed to the beef department for things that pass to these other departments, and then you say to your beef department: "There is the basis; now, you get results that will put this in the black"?—A. Well, that is the situation.

Q. Is that correct?—A. Yes, that is right. The beef department know exactly. It is the beef department who put all these values on. They are the people who operate all three accounts.

Q. That is correct, is it?—A. Oh, yes.

Q. All right. If your beef department were to turn those red figures into black, who would pay for that? I am not going to disturb by-products, casings or barrel beef. We will just leave them alone?—A. Well, that is purely a hypothetical question. It never occurs.

Q. It will be paid for one way or another, either less for the farmer or more for the consumer?—A. It is a purely hypothetical question.

Q. All right, call it a hypothetical question or whatever you like, that is what would happen?—A. It would be accounted for by the fact that we made a very large profit on our beef operations.

Q. Quite so. But mark you, you have already said that that is the object. Those are the instructions to your beef department?—A. Yes, that is our object in every department.

Q. Quite so. Then the only person who could benefit from the application of that system would be the packing house establishment?—A. Well, Mr. Stevens, I don't think that helps to clarify what actually takes place. What I am maintaining is that, in the system of accounting that we follow, we know accurately each week what the result of our beef operations is. That is the object of this, of our method of accounting, and we achieve it.

By Mr. Factor:

Q. The Chairman's point is you just turn the red to black in the beef department, retaining basically the other three items?—A. But you see, we don't do that at all. These three, together, constitute one. If you have any objection to this, we could just make one account. It would be exactly the same thing.

By Mr. Kennedy (Winnipeg):

Q. Just referring to your beef account that appears in the red, has that ever shown in the black?—A. No.

Q. Even with the most efficient management, under the present grouping or distribution of the departments did you ever anticipate that that beef account would show in black?—A. We know that will always be red.

Q. You know that will always be red?—A. Yes.

By Mr. Sommerville:

Q. Do you agree with Mr. Tapley?—A. I am not sure it is the best way—excuse me for interrupting—I am not sure at all, as an accountant, that that is the best way of doing that.

Mr. KENNEDY (*Winnipeg*): No, I would not think so.

By Mr. Sommerville:

Q. But, as an operator?—A. No, I am not sure as an operator. We have discussed it many times. But at any rate our object is to put pressure on our salesmen to make a profit on the beef department. I want to make that clear, that we are trying to make a profit.

Q. Then you agree with Mr. Tapley, that when that condition exists you must either get a profit at one end or must buy your cattle cheaper at the other end?—A. Naturally.

Q. And with that condition there is constant pressure then on the beef department, the beef department head, to accomplish one purpose, namely to produce a profit?—A. Yes.

Q. And he can only produce his profit by either selling for a little more or buying for a little less?—A. Exactly.

Q. That is the result?—A. That is the case in every business.

Q. Well, yes it is, but when there is this pressure weekly of the red figures, it may have a very definite result on the price of beef?—A. The figures may not be red. It quite frequently happens we have a profit on the three accounts.

Q. On the combined accounts?—A. Yes.

Q. Now, you stated to us that these first four accounts correctly reflect the beef situation. That is right?—A. Yes.

Q. How can that be, Mr. McLean? As I understand it, the by-products include by-products from other live stock besides beef--sheep, lambs and calves?—A. Modifications are made for those, or that is hardly correct. The by-products of sheep, lambs and calves are sold at less than of the cattle. The by-products of the sheep, lambs and calves are charged into that by-products accounts much more nearly at their market value, or as exactly at their market value as is possible, and that is possible.

Q. But they are in there?—A. They are in, but they are charged in at their market value and they are sold at their market value. So that the fact is that the by-products account, the profit or loss that it shows, belongs to cattle.

Q. In other words, those four totals do not represent the actual results at all?—A. Oh, yes, they do.

By Mr. Chairman:

Q. What portion of the casings is sheep casings and lamb casings?—A. Casings, as I have already explained, is divided. The casings account is a pretty important account.

Q. Of course it is?—A. And sheep casings are pretty important because they are more valuable than beef casings. So we follow through each week carefully and analyse the source.

Q. But this $200,000 includes both?—A. Yes, and that is divided, in our practice. I don't know what this figure is because I have not seen this before, but if that is the total result—

By Mr. Sommerville:

Q. It is the net result of your casings department?—A. If that is the case, there would be a memorandum in the casings department, showing how much of that attached to beef. At least, I am sure that is the case. The auditors who have been there would know about that.

Q. Those four figures apparently include other live stock products, and as they are presented they cannot reflect the exact beef situation?—A. True. I am not saying that these figures are accurate to a cent or to a dollar. What I am saying is that when we have our record at the end of each week, we know that these records are accurate to, say, within a tenth of one per cent, or they are correct to the point that we need them correct as operating figures, and they are correct for any purposes whatever, certainly correct.

By Mr. Factor:

Q. That is not Mr. Sommerville's question. Mr. Sommerville's question is that it does not reflect the exact beef situation because you have included in it, even in the casings to a considerable extent, the products of sheep and lambs? A. No, the profit on casings is divided as between beef, sheep and lambs.

By the Chairman:

Q. Yes, but they are included in this figure?—A. They may be.

Q. This is your department of casings and your department of by-products, and it shows certain figures in both cases that include sheep, lambs and calves; and in the casings, sheep and lambs?—A. If they are in that figure, then this is not the figure that the beef department would use. They would have the division.

By Mr. Sommerville:

Q. Let us leave beef, then, because we cannot agree upon that?—A. I am sorry I have not convinced you.

By the Chairman:

Q. There is not any question about it being divided in your books, but what we are pointing out is that the department results which are here set forth show casings $200,000 and by-products $549,000, which in both instances include sheep, lamb and calf products. Therefore the four figures do not reflect the beef situation. That is what we are pointing out?—A. I hope I am not labouring this too hard, but I do want to make this clear to you, Mr. Stevens. So far as by-products are concerned, everything other than cattle are unimportant. The by-products of sheep and lambs, because that is the only other thing—there are practically no by-products from calves—are quite unimportant and are charged into an account at their actual value, not at an estimated safe value. But I submit that in the case of cattle, especially cattle, the net result of that by-products account properly belongs to cattle.

By Mr. Factor:

Q. Are they less valuable than beef by-products?—A. Oh, yes.

Q. Less valuable?—A. Yes, much less. You see, from beef there is sold a large amount of tallow and hides, tongue, heart and liver.

Mr. SOMMERVILLE: Sweetbreads.

The WITNESS: Forefeet, shanks and glands, which are quite valuable.

By Mr. Sommerville:

Q. You have your hides, and similar organs from your calves, sheep and lambs, have you not?—A. Well, but they are a lot smaller.

Q. True, but they have their proportionate value?—A. Yes.

By Mr. Ilsley:

Q. Why don't you do the same thing with the beef products?—A. I beg your pardon?

Q. Why don't you treat the beef products the same as you do lamb, sheep and calf products? Why don't you put them in at the true value instead of at the safe value?—A. Well, because there is not an immediate market, you see. True, I am not saying that the way we do it is the best accounting practice. What I am saying, and what I still maintain, is that when you combine them you have got the same result as though you did follow a different system.

Mr. SOMMERVILLE: Let us see whether that follows through or not.

The CHAIRMAN: Well, it is one o'clock, gentlemen. Let us have a little surcease from our labours. We will adjourn now and meet this afternoon at 3.30.

The committee adjourned at 1.00 p.m., to meet again at 3.30 p.m.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

(Continuing the examination of Mr. McLean :

By Mr. Sommerville:

Q. Mr. McLean, dealing with the departmental profit and loss account which we were discussing this morning and which is still before you, perhaps we can get a picture of the situation by taking the Provision department that is referred to. The Provision department is shown in your departmental account as showing a loss of $138,546.09?—A. Yes.

Q. That is in the red?—A. Yes.

Q. I understand that covers your chief operation in hogs?—A. Yes.

Q. And the auditors advise us that they computed interest charge to this department as $228,397.74?—A. Yes.

Q. Deducting that from the results of this department, that would leave a result of $89,851.65 of a profit?—A. Profit, yes.

Q. Now, those products are sold to the sales department?—A. The domestic products are.

Q. And the auditors advise that through your Car Route department, the Provisions department sales exceeded the average selling expenses by $100,000 on the Car Route sales of your provisions?—A. I do not know where they got those figures from. I would be very surprised if that is correct.

Q. Here is the examination they made—that the margins obtained by the Provisions department from the Car Route department exceeded the average selling expenses by $100,000?—A. Well, that would be gross, would it?

Q. No, that is the amount by which your salesmen exceeded the margins?—A. You see the Provisions department gets the product at a certain price, then they sell it, and the expenses of the Car Route department—I should have said the Car Route department—their expenses are deducted.

Q. Are deducted from other sales?—A. Yes.

Q. And the evidence of the auditors was that the margins exceeded their average selling expenses by $100,000 on the Provisions department?—A. I have not heard that evidence. I cannot comment on it.

Mr. Factor: And the whole selling department and the Car Route only shows $65,757.

Mr. Sommerville: Because it is a net figure; they may lose on something else.

By Mr. Sommerville:

Q. Now, if there is any such profit as $100,000 on the sale of the provisions through the Car Route department then that would increase the profit in that department to $189,000?—A. Not unless it was—are you sure that statement was given in evidence?

Q. It was given in evidence yesterday?—A. That there was a net profit on provisions in the Car Route department of $100,000?

Q. Yes.—A. I do not think it can be right.

Q. This is the way in which the evidence was given. The auditors were indicating that the statement in your selling department, the total selling profit of $16,232.30 was a net figure?—A. That is correct.

Q. After deducting profits in various departments, after taking over the profits in various products, the losses in certain others—on that in order to get at the true picture you had to know what your profits were on each of these in order to figure them back to the products themselves. Now, then, they said that for the month of March they took the actual sales of provision products day by day and took from that the average cost of selling those provisions, and on that basis they would show a profit of $100,000 during the year?—A. Well, of course, they just multiply by 13, do they?

Q. Multiply by 13 on a four weeks period?—A. That would not be a very safe way of doing it in any case, and I am inclined to doubt whether those figures, even on this basis, would be arrived at.

By the Chairman:

Q. You were indicating that you were very proud of your system, and you indicated that you could tell immediately without any trouble at all how each of these composite items were made up. Perhaps you have in your records with you how that $16,000 is made up?—A. No, I have not; but we use the sale departments as a clearing department, there is never profit or much loss in those.

By Mr. Sommerville:

Q. I have to be exact now. The auditors yesterday, in order to have the figures complete for the year, checked up on the total profit on volume and the volume was 19,252,064 pounds sold through all departments?—A. Yes.

Q. That quantity of provisions were sold through the Sale department and the total profit on that account was $100,110.73—A. Yes. Is that net or gross?

Q. That is the excess of the margin over the selling cost. That would be net, would it not?—A. No, wait a minute—I think you will find that is gross, Mr. Sommerville.

Q. What would you take from gross?—A. The selling cost. Would you give me those figures again?

Q. The average margin obtained was 116½ per 100 pounds?—A. Yes.

Q. The average expense of selling was 64 cents per hundred pounds?—A. Yes.

Q. That leaves you— —A. Fifty-two.

Q. —fifty-two and a half cents per 100 pounds as the excess over selling cost that was obtained. That would be net?—A. Yes. That is correct; that is net.

The CHAIRMAN: That gives you what?

Mr. SOMMERVILLE: That gives you a total profit in that department of $189,851.65 without interest charge. That is $100,000 plus $89,000 without interest charge in the Provisions department?

The WITNESS: What is the $89,000 you are speaking of?

By Mr. Sommerville:

Q. The Provisions department has charged against it, according to the auditors for that year, $228,397.74?—A. Oh, yes.

Q. For interest; and if you deducted that from the charges to the Provisions department instead of showing a loss it would show a profit of $89,000?—A. That is correct.

Q. And the profit on the selling department being $100,000 for provisions would leave $189,000 profit for provisions, would it not?—A. No, no; because your method of arriving at that is not a sound method at all. I would like, before passing any comment on these figures—I would like to have an opportunity of checking them. This was probably done in our office, and it was not mentioned to us at all.

The CHAIRMAN: It is taking your own system and your own figures.

The WITNESS: But I have not got so much confidence in our own system in the hands of other people.

The CHAIRMAN: That may be sound. I will agree with you there. But we have some reasonable confidence in our auditors.

The WITNESS: Well, here is the reason I say that—I am just trying to be helpful and to get the facts.

By Mr. Factor:

Q. Mr. McLean, do you dispute that net amount per 100 pounds?—A. I would not pass an opinion on it at all until I have an opportunity of checking their computation. You could not ask me to.

Mr. KENNEDY (*Winnipeg*): Certainly not.

By Mr. Sommerville:

Q. Mr. McLean, perhaps we may leave it at this, that the net figure shown in your Sale department here as profit is the result of a great many items on

either side of the balance sheet in that department, losses and gains? A. I say this to you, Mr. Sommerville, I am finding out that I know less about our system than I thought I did, but I would be very surprised if there are any large losses like that or any large profits like that. I am willing to make any check you ask me to with the auditors in order to obtain the facts.

Q. But you remember that through these departments in Toronto you had $24,000,000 worth of sales?—A. Yes.

Q. On $24,000,000 worth of sales you are bound to have entries of large amounts on each side of the balance sheet in that department?—A. Yes, but the basis on which we run those sales departments—we may have slipped in working our own system, but I would be very surprised if in any single department there were a figure anything approaching that, either of profit or loss.

Q. My only point for drawing it out is to indicate that on this department's profit and loss statement it would indicate that there were just $16,000 charged in that department, whereas there may have been hundreds of thousands charged in beef or made in beef and hundreds of thousands lost in something else?—A. I have discussed this several times with Mr. Sheppard who is a much more experienced accountant than I am in general accountancy, but who is much less experienced in packing house accountancy—remember, I, myself, began my career as an accountant, and I think I am a pretty fair one—and Mr. Sheppard and I do not agree, but I am willing to check with the books in front of us. You must not ask me to take a position here on figures I have never seen. It would have been quite possible, when they were making that computation, to ask us to check them.

Q. I am not asking you now to accept a figure one way or the other. I am asking you if that is not the result of this net figure that is shown?—A. Yes.

Q. And so, in order to get a picture of any one of these Provisions departments or Beef departments or any one of these departments, you would have to go through all of these and build them up?—A. No, I do not think so. I think if you went through one or two of these—as I have said there may be a small profit or loss which has no significance on the total year's results.

Q. A $100,000 figure?—A. I am not accepting that—

Q. It has a substantial significance?—A. I have not admitted that figure; I would like to check it.

By the Chairman:

Q. Before we leave that statement, I would like to ask Mr. McLean one or two questions. This statement—you have it before you—shows under "Creameries" a loss of $38,000?—A. Yes.

Q. A loss of $38,000 is the correct figure, is it?—A. Yes.

Q. I would like to ask this question: the creamery business is not essentially a packing house business, and seeing a loss of that character, what is the purpose of the Canada Packers persisting in the business, and why not leave it to the creamery companies to handle their own line of business if it is not a profitable line for you?—A. That is a perfectly fair question. We inherited those creameries with one of the companies, the Gunn company. They owned those creameries, and they had been a produce house before they were a packing house, as you know. The ownership of these creameries goes back many years, and the creameries have not been universal money losers, but last year was a very bad operating year in the creamery business. I think if you will make enquiries throughout Ontario you will find that all the creameries lost money. I do not think that that is the proper solution for that kind of a situation anyway. When a department loses money, the proper thing to do is to try to put it on a basis where it makes money, and that is what we are trying to do. I spent a great deal of time on these creameries in the last year. It was a very unfavourable operating year.

Q. That is your answer.

Mr. FACTOR: Canned goods.

By the Chairman:

Q. Yes. Let me take canned goods. Now, canning vegetables and fruit is not a packing house business. Here again you show a loss of $51,553 in that operation?—A. Yes.

Q. Now, again I put to you the same question: why should a huge organization such as yours step out into the canned goods field and suffer a loss which must be reflected in the rest of your business in competition with the canning companies of the country, and there is not a very healthy condition there, as our inquiry discloses?—A. No. I think I can answer that question too.

Q. I hope it is a more effective one than the last one?—A. Well, in the case of our business, our business is distributing foods and our system of distribution is by car routes.

Q. Distributing foods?—A. Yes.

Q. All right. Packing house foods, I would say?—A. At any rate, we have car routes which, as you know, consist in this: a car starts in, say, on the Canadian National line east of Toronto. It may start in at Port Hope, run along and stop at Port Hope and Cobourg and Trenton and those small places. It is a refrigerator car, and it stops at each of these towns. We run them once a week or twice a week, and that lends itself to the distribution of other goods that need the benefit of refrigeration. Now, for many years we have handled canned goods just as a part of our business because we keep a traveller working in that district and he can sell more product than we have in just meats, and it is a useful help in paying his expenses to add canned goods and butter and eggs and similar lines to his meat lines. In that way we got into it.

Q. Yes, but you make a loss of $50,000; and here is what I am bringing to your attention and this concerns this committee very vitally: in the evidence that was before us last week in connection with canned goods we found that the grower of the produce—of tomatoes, peas, corn and such like—was being paid in some cases prices that were unfairly low, so much so that there was some haste to correct those prices after the inquiry had gone on for a day or two. This operation of yours with a loss of $51,000 must have contributed in a measure to depressing the prices which the grower got for those goods. Can you tell me, as a business man, if an operation that shows a loss of $50,000 is a healthy operation in a main industrial operation, namely, canned goods industry in this case?—A. I cannot agree with your deduction at all. Perhaps the year before—I do not remember the figure—but this year we are going to make some profit out of canned goods.

By Mr. Sommerville:

Q. Will it be on the basis of tomatoes at 25 cents a bushel, which is the contract price, and the growers say it is impossible to grow them at that price and get anything out of them?—A. Don't ask me to speak about that, because I do not know.

Q. That is the evidence we had.—A. I would not, of course, maintain a department on which year after year we lost money, but every department occasionally loses money; our beef department is the heaviest loser of all this year.

By the Chairman:

Q. Now, just to indicate that I am not alone in this matter, I have before me complaints from producers and from those in the canned goods business protesting against the type of competition that they get from the packers. You must

remember that the Canadian packers are a very powerful organization. If necessary you are able to do things that the ordinary capital of an ordinary canning concern would not possibly permit them to do; and it strikes me as a most unfair form of competition for you to branch out into lines of business which conceivably you would not be as expert at as those in the canning business and suffering a severe loss which must be reflected in either lower prices on livestock or in some other way, and at the same time perpetrating a form of competition which is complained of by those with whom you yourself compete?—A. I do not not think you would find any producer who would object to our being in the canned goods business; and as I said we must not take it for granted because we have a loss one year we have a loss every year, and if you are basing your point on the fact that you make a loss that is not a substantial basis because on the whole we have made a profit.

Q. What are you going to pay for tomatoes this year?—A. I do not know.

Q. Well, you ought to know by now—contracts are made?—A. I cannot inform you right away, but I can get the information for you, but I do not know of my own knowledge; I have not any idea.

Q. It is an important part of your business; it must be. That is something that I think should be determined?—A. I have been in England six weeks. I probably would know if I had been at home.

By Mr. Sommerville:

Q. Is it not a fact on your statement that you find it a convenient way of using car space when you are sending it from town to town and filling up your car with canned goods?—A. Yes.

Q. You would be sending your car out with a certain quantity of beef?—A. Yes.

Q. And you would carry your canned goods in the same car, helping out in the matter of freight?—A. Yes, exactly.

Q. Does that not give you an advantage in the matter of competition over those who are in the same business, because that is one of the complaints we have?—A. Suppose it is? Is there any crime in that?

Q. I just wanted to get your views on it.

Mr. KENNEDY (*Winnipeg*): I would not think so.

The WITNESS: It is an advantage that we probably share with the purchaser if we have an advantage. It has not been very disastrous to the average canned goods producer—we are a very small factor in the canned goods situation.

By the Chairman:

Q. It does not take a very large proportion of the business operated at a lost to effect the general standard of the whole industry; you know that, as a general principle.—A. Now, the canned goods situation—I know something about it because it has been discussed a good deal. My opinion is that the average price that we get for our canned goods is considerably higher than the price that the competing canned goods companies get, and if that is so we cannot have done much damage to their business.

By Mr. Sommerville:

Q. Then, there would be no complaint from them?—A. You see, I am in the dark as to your complaints. I do not know what they are.

Q. Another complaint that has been brought to our attention by the fruit growers is the fact that Canada Packers in selling their fertilizer will sell the fertilizer to a producer of fruit crops and agree with him that if he buys the

fertilizer they will market his product for a cent a basket or a sum that is very much smaller than any other commission merchant in the town can handle, and when your carload of fruit goes to that town it means that every fruit merchant will be very seriously affected and fruit growers are affected, and the price of their product comes down until your product has been consumed. What do you say as to that?—A. I have never heard of that. We have a long calendar of sins, but that is a new one.

Q. Apparently they are growing from day to day?—A. I do not think I have any comment to make on that. I should think it is mostly imagination.

Q. They gave us some very practical evidence, sworn right here last week, Mr. McLean?—A. Is that so.

Q. Yes?—A. Well then, if there was definite evidence I will look up the facts and give you our comments on it. I did not know that.

Q. Will you be good enough to give us the total of your live stock purchases in Canada, of the various grades—I mean the various kind of cattle, hogs, sheep and calves?—A. Do you mean the total number.

Q. The total number, and the value, in pounds?—A. I could not give you that. I have a statement, but I do not think it gives you completely all that you ask for. You must not expect me to tell you this information out of my head.

Q. I am not asking you that, I am asking you to furnish it?—A. Oh, certainly. I have a statement which I thought would interest you, in view of the discussion the other day, it was simply on the point that we have been discussing to-day, to substantiate my claim. I can tell you exactly what were the Canada Packers operations in cattle, hogs, sheep and calves.

Q. If you would be good enough to just tell me the volume?—A. I do not think the volume is on it. However, I will prepare that statement for you if you wish.

Q. I would like to have the volume, just as we got it from the other companies?—A. Yes.

Q. And the price paid the various grades?—A. Will you write me a letter saying exactly what you wish, or shall I take it down now.

Q. Mr. Parry will give you a statement. Now, I think you said when you were here before that you got what you could for a product, and charge a reasonable amount for processing a product; and the balance went to the farmer. Is there not a very substantial variation in the amount that you get from your customers?—A. I would say, no.

Q. Because yesterday we had the evidence of the auditors to the effect that there were wide variations in exactly the same product on exactly the same day in the same town; and the evidence of that was submitted in the case of two cities only; In Niagara Falls a carcass of baby beef at 10·5 cents to one man, and on the same day to another man a carcass of good baby beef at 11·5 cents; on the same day a hind quarter of a fair steer at 10·5 cents to one man, and on the same day to another man 8·5 cents; a fair heifer hind quarter to one man 12 cents, and on the same day to another man 10·5 cents; a front quarter of fair heifer, to one man 7 cents and to another man 10 cents; a hind quarter of medium heifer, to one man 12 cents; and to another man 9·5 cents; and two hind quarters of fair heifer, to one man 8·5 cents, and to another man on the same day 11·5 cents. These prices that I have indicated are all given on the same day in the same town, to two different customers. How do you account for that wide variation of as much as 2·5 to 3 cents in a product? If that variation could go back to the farmer, if there is room for that variation, I am sure he would be happy to have the extra 2 cents?—A. I do not think—that was reported in yesterday's paper, and the only—I am not able to check. You see, these auditors have abstracted information from our business without checking it with us. Now, I am sure these things must be wrong.

By the Chairman:

Q. We had sworn evidence, Mr. McLean, some time ago, and you had ample opportunity to check that evidence, which indicated that your firm would approach the customer of a competitor and undersell them. Here is the differentiation in price in the same town on the same day which would seem to indicate that practice?—A. The only answer I am able to give to that is, that we were unable to identify—Niagara Falls was mentioned, and we have only two customers in Niagara Falls who use baby beef. What was the date of that, was it May 10th, or May 14th.

Q. May 14th, yes?—A. I have a report here—I will not mention names.

Q. We are not mentioning names?—A. In any event I have not permission, I intend to call the customers and ask permission to give their names here and the facts—on May 10th, that was one of the dates, wasn't it?

Q. No, May 14?—A. May 14: I have not got the particular customers. Wait a minute, till I see. The one case that was mentioned in the paper, at any rate, was this: one at 11·5 cents, and another at 10·5. Now, the figures were not right, the figures were 11 cents and 10 cents, and they were two different grades of beef—it was 11·5 cents and 11 cents—the actual figures. The order came in 10·5, and that is done in many cases, perhaps 50 per cent of the cases, the price was raised to 11 cents. You see, because we book all orders for beef subject to approval of head office. We usually confirm it by telephone, whether it was done in that case or not I do not know. But in that case where your officer reported the sales of the same grade of beef in the same town on the same day at 11·5 cents and 10·5 cents, the facts were these:

By the Chairman:

Q. You are giving us May 10 though, on your card there; that is not the date, the date we quote is May 14?—A. So far as—I am certain these facts are not facts, do you see?

By Mr. Factor:

Q. They ought to be, they are sworn?—A. I am quite sure the auditor believes it, but you see the auditor has not—might easily make a mistake.

By Mr. Sommerville:

Q. We have had about 20 cases reported?—A. I submit to you that it is not a fair thing to recite, to submit these cases here without first checking them with us.

Q. But they are taken from your record, from your own books?—A. I am willing to stake my case on it. We will check back on these particular cases he has reported and if he is not wrong I will come here and tell you that. I am certain he is wrong.

By Mr. Sommerville:

Q. Before checking you will say he is wrong?—A. Yes, I will.

Q. I would prefer you would wait until you checked?—A. I would have preferred he had waited till he had checked.

Q. He has checked?—A. No he has not, not with us. We have checked in one case, the facts he gave—as reported.

By the Chairman:

Q. Tell us the case, what case is that?—A. Both baby beef. Here I have got May 10, baby beef 11 cents. May 10—yes, there it is, the same date and the same customer—baby beef 11·5—that is the case so far as we—

Q. Wait a minute, we have no such case, so you have not checked our case, Mr. McLean.

By Mr. Ilsley:

Q. This case had better be checked by Mr. McLean and let him tell us?—A. Of course.

By Mr. Sommerville:

Q. Is there any variation?—A. A variation such as that is absurd, Mr. Sommerville. Beef is sold on a margin—our average—I am not saying that there is no variation at all, of course; but the margin, the variation of 2 cents a pound to anybody who knows the beef business—you have only got to mention it to know that there is a mistake somewhere.

By the Chairman:

Q. Are your salesmen forbidden to make any change or variation in price?—A. Oh no.

Q. How can you say then so positively that this is absolutely wrong?—A. Because, you see, if we sold the same grade of beef to two men on a difference of 3 cents a pound, we would be treating one man very unfairly.

Q. Of course you would?—A. We would not do it. You would not build up a business by that kind of practice.

By Mr. Sommerville:

Q. You might build up your business at the expense of your competitors by that practice?—A. By selling beef too dear.

Q. No, by selling a man lower than the average price at which it can be sold by your competitor; and that was the charge that was made here—at least that was the statement made.

The Chairman: The complaint.

By Mr. Sommerville:

Q. The complaint, at an earlier period?—A. You do not make profits by selling any product below cost.

Q. You have not made profits on beef, you have lost $889,000?—A. So has everybody else. I imagine we have done as well on the beef business as anybody last year.

Q. Then we had evidence yesterday that you had a printed sale price that is given to the salesman?—A. Yes.

Q. And then there is a code with that?—A. Yes.

Q. And that code shows the margin in which he can vary that price?—A. Yes.

By the Chairman:

Q. Is that correct?—A. Yes.

By Mr. Ilsley:

Q. Would that be for all products?—A. That is universal practice in the packing business. Every deal is a deal. It is not like selling watches or iron, every deal is a separate deal practically.

By Mr. Sommerville:

Q. That is when you are selling, when it comes to buying it is all bought on a different basis?—A. Every deal is a deal in buying.

Q. You think that is so?—A. Yes.

Q. The farmer would like to think that?—A. The farmer knows that.

Q. There is, however, you say, a variation allowed the salesman; a discretion in the sale of beef?—A. Oh, yes.

Q. And do you say that the margin allowed on beef is not as great as that allowed on pork?—A. Oh, it is a difficult question. The margin on beef—as a rule beef is sold on an extremely narrow margin. In any year where a packing house finishes its year with 10 cents a hundred pounds—that is ·1 cents a pound profit—it has done well.

Q. On the average?—A. Yes.

Q. Now, I am asking you a question: is there not as much margin allowed the salesmen proportionately on beef as on pork products?—A. I am sorry, I do not understand that question.

Q. Is there not as much latitude allowed the salesman in the adjustment of his margin in the case of beef as there is in the case of pork?—A. Oh, I do not think I could answer that question; remember, you are asking me a lot of questions about phases of the business I have no contact with whatever.

By Mr. Factor:

Q. There is a code, Mr. McLean?—A. There is a code.

Q. What is the margin in the code?—A. You could easily tell that by getting a price list.

Mr. SOMMERVILLE: We had evidence yesterday that the margin on pork products—certain products named—ran up to 3 cents, wasn't it?

Mr. KENNEDY (*Peace River*): Yes.

Mr. SOMMERVILLE: Some 3 cents or 4 cents a pound margin; as much as 4 cents on some products, some pork products. That is a large margin, is it not?

The WITNESS: Yes, it is. I am very much surprised at that.

By the Chairman:

Q. I would like to ask this question, Mr. McLean: You see, we are asking you—you are suggesting that perhaps it is not fair—we are asking you questions, and you say you are not familiar with that phase of the business; yet a moment ago you definitely challenged the auditor's statements on figures, and you did it with a great deal of confidence, you said positively it could not be so?—A. I did.

Q. Now you say you do not know enough about it to tell us what the standard margin is?—A. I think these two statements are quite compatible and consistent.

Q. I will tell you something: I am learning something about big business now, I thought I knew something about business, but really I begin to think I know nothing about it?—A. Do not be unfair to me.

Q. I think this, Mr. McLean: I think you as head of the business surely would know the normal practices going on from day to day as well as what you said in your evidence about what these figures disclosed a moment ago; one is routine, the other specific?—A. You forget there are 4,000 people in that business, and there are 120 people in head office, and this practice—

By Mr. Factor:

Q. You are branching off to a speech again. Mr. Stevens asked you a simple question?—A. Do you want me to stop speaking.

By the Chairman:

Q. No, no, Mr. McLean; you got away from my point: what is your practice. It must be one of the important factors in the whole business—the latitude

your salesmen should be allowed. I think if there is one thing in the whole business that you would have a correct estimate on, that is the one thing. If it is a little too wide it is a very dangerous thing, but if it is too narrow it would stilt your business?—A. I do not know the object you are seeking; or the facts you are trying to bring out here. I would like to be helpful to you.

Q. Is that all the answer you can give me?—A. I would like to be as helpful as possible. I will try to give you as much of everything as I can.

By. Mr. Ilsley:

Q. I think our object is just this: you send your salesman around, and you give them a latitude or a leeway within which they can trade with customers; and it would appear, as the evidence stands at present, that they discriminate between customers in the same city on the same day. They treat one man unfairly, as between these two customers; and we want to find out, I think, if these cases are not cases that would appear to be unfair trade practices perhaps—unless there is some explanation of it. If your salesmen are going to deal with two traders in one town, selling one man at 11 cents and another man at 8 cents—and on pork selling one man at 22 cents, and another at 19 cents—then one of these men naturally in the circumstances is being treated unfairly.—A. Well, let us put it on the lowest ground, Mr. Ilsley; do you think that a firm could do that without the knowledge of it being divulged—do you think it would be good business.

By Mr. Young:

Q. But it is divulged. There are several witnesses came here, yesterday we had a man who said he had been in the packing business for forty years in St. Catharines, and that is the thing they are up against all the time, they are meeting that sort of thing in the whole Niagara peninsula—chiefly from Canada Packers selling at a price which they believe would be below cost, from their knowledge of the business?—A. All I can tell you gentlemen is that we try to sell all the time for a price above cost.

By the Chairman:

Q. Wait a minute now; we will take your own statement this morning, $831,000 you say you lost in beef?—A. No.

Q. Well, it is $742,000 before you add the interest?—A. No, $831,000 less $749,000.

Mr. SOMMERVILLE: Oh, but you are including casing products from the others too.

By the Chairman:

Q. Your beef goes from your beef to your selling department, is that right? —A. Yes.

Q. Then it is sold?—A. Yes.

Q. Take the right hand column on your statement, and the top figure; there is a loss on beef of $742,000?—A. Yes.

Q. Coming down to your selling department, you had a profit there of $70,000?—A. Yes.

Q. The total profit is shown there?—A. Yes.

Q. Take the total profit from that department and deduct it from the loss, it will reduce the loss on beef by the amount indicated?—A. Not at all. The result on our beef department was $742,000 less—$648,000 and $215,000, is $800,000.

Q. Excuse me, that is by-products, casings, etc. I am talking about beef? —A. So am I.

Q. You told me just a moment ago that you sent beef direct to the selling department; is that correct?—A. Of course it is correct.

Q. Whatever you make in your selling department would be taken off the loss shown in the beef department?—A. I see the point you are making. Here is the answer to it: we charge beef to the selling department—at the cost of the department—by taking these three together, do you see. Now, I told you that half a dozen times this morning, we consistently treat our beef—

Q. When we asked you this morning why you did not credit back to your beef department some portion of the by-products which show a profit of $648,000, you said that was not general at all, you have not done that at all?—A. You misunderstood me.

Q. I did not misunderstand you; when we brought that into question and said to you, why not credit your beef with a larger measure of what you charge against it, a half at least, you said that was not good business.

Mr. Ilsley: I do not know; he said maybe they ought to change the present system, I think.

The Witness: I said that for all practical purposes our method of treating this is as though we had just one kind instead of three.

By the Chairman:

Q. You said that in these products were products from sheep, lambs and calves as well, and that in that item in casings of $215,000 a very substantial part was sheep casing?—A. What I am saying now has to be modified to that extent.

Q. Yes. You could still take that and you would show a loss?—A. No.

Q. All right then; let me take it the other way, how much of the by-products is beef?—A. I told you this morning, 90 per cent of it at least. I would not say—practically all the profit on by-products is beef.

Q. How can it be, Mr. McLean?

Mr. Kennedy *(Winnipeg):* That was not his evidence this morning.

By the Chairman:

Q. No, it was that a portion of the by-products came from sheep, lambs and calves; but you said the major portion was beef?—A. No, I attempted to make myself clear, and perhaps I did not: I said that because the volume of product that went through the by-products was so overwhelmingly beef, that we charged the by-products, the sheep and lambs, at the actual value into the by-products account; so that your profits shown in the by-products account—

Q. You are saying that now?—A. That is what I said this morning.

Q. Not about casing?—A. That is different—that is always divided as between beef, and sheep and lamb.

By Mr. Sommerville:

Q. The larger portion sheep?—A. I do not know which would be the larger portion—I said sheep casings we have more than beef casings.

By the Chairman:

Q. Would half of it be beef?—A. I could not tell you, but that division is kept up all the time you see.

Q. Could you estimate—you must know?—A. Well, say half—it would be at least half.

Q. All right. $748,000 on these two branches, less $742,000 on the other? —A. Yes.

Q. That leaves us then with beef with practically no profit at all?—A. Yes.

Q. Now then, we come back to the point disclosed in this statement here; and I ask you on the face of that does it not indicate, in face of the evidence given here yesterday, that you were selling actually below cost in that competitive areas?—A. I would not say at all that there were not individual sales made below cost. There are lots of them. There are so many factors that enter into the business—the strength or the weakness of your salesmen is the chief factor, and there is the activity of the competitor. Of course, when you break even on the department, it must mean that a great deal of the beef is sold at a loss.

By Mr. Factor:

Q. There is a code on pork products?—A. Yes.

Q. And the margin between the code and the selling price varies up to as much as 4 cents on pork products, as I understand it?—A. I say, I am surprised if there is any product on which there is a 4 cent margin.

Q. We have the sworn evidence of Mr. Hutchison, and he produced his code.

By Mr. Sommerville:

Q. Just look at that price list, and the code, Mr. McLean. Looking at the price list, opposite each of the items there is a letter—that letter I understand signifies the code. Now, you need not mention the letter, just signify by referring to it as the first letter, the second letter and so on?—A. Well now, I do not know at all what this thing is. Perhaps Mr. Hutchison could come and explain it to me.

By Mr. Factor:

Q. What is this other white book, is that your sales code?—A. This is what the salesmen carry.

By Mr. Sommerville:

Q. This is issued by your company?—A. I judge it is.

Q. And the printed sales list?—A. This is our sales list, I think.

By the Chairman:

Q. Mr. McLean, do not say you think it is. Would you mind looking at it and just telling us, is it, or is it not?—A. Well, sir, you think that I know about this, and I do not. If you would ask me—this is Canada Packers Limited, Toronto, May 21.

Q. Is that your company?—A. Yes.

Q. Let us, for goodness sake— —A. Don't be unfair to me, Mr. Stevens; because I am trying to give you this information, and to give you all the information I can. If you were to have shown me that and asked me if it was our price list, I would say I did not know.

Q. Now, Mr. McLean, please: the auditor that went into your company by the request of this committee produced to us a price list which is said to be yours; will you please look at that and tell us whether it is or not?—A. I am certain it is, if he has brought it in.

Q. That is all we want to know?—A. You must be fair to me, Mr. Stevens; you are implying that I am not trying to be helpful to you.

Q. No, I am not. I am just asking you straight questions?—A. If anybody had shown me that and asked me if that was our price list, without checking at the top of the page, I would not have known whether it was our price list now or the prices of five years ago.

By Mr. Sommerville:

Q. Can you tell us what the code letters indicate?—A. I do not know a thing about it, but I will ask Mr. Hutchison.

Q. Do you know the words that make up your code?—A. Yes ————. Would you mind having Mr. Hutchison explain it, so I will not be at a disadvantage. I think that is correct—the letter here (indicated) is 4 cents a pound on a 35·5 cent product, which is a high-priced product.

Q. But the latitude is— —A. 4 cents a pound.

By Mr. Factor:

Q. Have you a similar code in connection with beef?—A. I will have to ask Mr. Hutchison, I do not know.

Q. Here is a case where the auditor, and the president do not know; it is getting more interesting as we go along. Perhaps it is so complicated that even the auditor cannot explain it?—A. I think you are overlooking the fact that I am trying to give you all I know about this. There is nothing on the price list to indicate that there is a code; but whether they have any locally or not, I do not know. You can easily get that.

Q. You have just said, for us to be fair to you; why do you not be fair to the committee? Do you mean to tell me that you do not know whether there is a leeway given to the salesmen in the sale of beef?—A. I know, as a matter of fact, that there is a variation with the sale of beef. You see, every carcass of beef has its own value. There are no two carcasses of beef that are the same, and if you are a butcher buying beef, or a packing house salesman selling beef, you know that there is a general average price for a general quality, and there are infinite variations.

Q. I know that, but on the same grade of beef is the salesman given a latitude, and how is that latitude given?—A. It is given—the price—apparently there is no code letter on that price; but in practice there is a latitude constantly in beef.

Q. For purposes of illustration, take an order on baby beef; what is the latitude given there per pound?—A. It would be very much less on baby beef than on other grades, because baby beef is a very definite quality and is scarcer in quantity.

Q. What is the latitude, say, on— —A. Those facts that were reported about that sale, the one case in which we were able to check up, I do not think the facts were as reported.

The Chairman: You do not think so? I must not let you get away with that. You did not check any of the cases we gave here. You checked one on the tenth.

The Witness: I do not know whether we did or not. We had no opportunity, because you did not tell us.

The Chairman: You have stated two or three times you had checked them, and it was not right. We are finding out you have not checked them.

By Mr. Sommerville:

Q. The reason for asking these questions is to find out whether or not there is the latitude. You say the price the farmer is paid depends upon what you get, less what you require?—A. Yes.

Q. What you get then, is the factor that is dominant?—A. Yes.

Q. That is the important factor?—A. Yes.

Q. If there is a latitude of 2 or 3 cents a pound to the salesman who sells, one would think that there would be a greater latitude to the salesmen who buy, or the buyer who goes out to buy from the farmer.—A. I am not sure I can make

that plain to you, Mr. Sommerville. You see on the product in any day or in any week, the margin between the cost and what we sell it at is a very narrow margin. The value of any quality of beef is very clearly defined, and while there might be or appear to be a wide latitude; in practice, there is nothing approaching that, and you would find that on any definitely defined quality of meat, any kind, I do not care what, if you averaged to-day's, to-morrow's and the next day's, it would be almost identical.

Q. You are talking of the total purchases?—A. Yes.

Q. That is not what we were talking about. We were talking about the highs and the lows?—A. There is the same operation anywhere we buy. We do not buy all our cattle at the same price.

Q. Your total production, Canada Packers, probably is greater than all of the big packers put together?—A. No, I do not think so.

Q. Your total sales last year were $54,000,000?—A. Yes.

Q. Would that not be equal to Swifts, Burns, Wilsils and Gainers together?—A. No; I should think it would be less than Swifts and Burns, but I am not sure.

Q. Less than Swifts and Burns together?—A. Yes.

Q. What proportion of the whole trade of Canada in packing products do you handle?—A. We estimate that our proportion of the organized packing trade would be, I think, about 25 per cent, probably—it is a guess.

Q. Of the organized packing trade?—A. Of the organized packing trade, which handles about 50 or 60 per cent of the total livestock.

Q. When you refer to the organized packing trade, it includes all the small packers, does it not?—A. All these smaller packers and Gainer's and the Kitchener houses and the Hamilton houses.

Q. I am talking about your position with respect to such houses as Swift's, Wilsil's, Burns, and Gainer's. They are, next to yourselves, the largest packers in Canada, are they not?—A. No.

Q. Are they not?—A. No; there are several who, I think, would be larger than Gainer's.

Q. Perhaps so, but who are they? The next one to you is Swift's?—A. Swift's.

Q. Do you know what their total volume was last year?—A. No, I do not.

Q. Who is next to Swift's?—A. Burns; remember, I am guessing, now, but I am sure those two are right. After those, I should think the two Kitchener houses would come in.

Q. The two Kitchener houses?—A. Schneider's and Dumarts, and the Whyte's of Toronto, and then probably Gainer's, and the Union Packing company and two or three of the western packing companies, Winnipeg. They are all guesses, now.

Q. I am asking you what would there be to prevent you going out on the market and saying to-morrow, the price of choice steers will be 8 cents, whereas to-day the price is 7 cents, and thus giving the farmer an extra cent on his choice steer?—A. I wish we could do it, Mr. Sommerville.

Q. The farmer would be willing.—A. Yes, he would. The best way to answer that is to say, what is to prevent us, instead of paying 7, why not pay 14?

Q. Well, it would be hoped that you would get up higher than 7, because we were down to 2 cents last year?—A. Yes.

Q. And gradually we are getting up now. What is the price now, about 5 cents, is it not?—A. Yes; in Toronto it is better than that.

The CHAIRMAN: For choice the price was $4.75 to $5.75?

The WITNESS: Yes.

The CHAIRMAN: Choice

The WITNESS: Yes.

Mr. SOMMERVILLE: Yesterday?

The WITNESS: Yes.

Mr. KENNEDY (*Peace River*): Byers' experimental station at Manyberries, Alberta, says is cost 6 cents to produce.

The WITNESS: I think he is high.

By Mr. Sommerville:

Q. What is there to prevent you saying instead of \$5.75, you will make it \$6.75 to-morrow? Or going out in the market and taking the choice steers at that price?—A. Because if we did that, we would lose a cent a pound on the product.

Q. You would lose a cent a pound on the product?—A. Yes.

Q. That would be dependent on the price at which you sold it?—A. Yes.

Q. That is more than taken up in the margin you allow on the sales, in the latitude on the margin, is it not?—A. I do not understand what you mean.

Q. That cent a pound is more than taken up on the latitude you give to the sales man who goes out with the product to sell?—A. I see what you mean. We sell that beef for all that we can get from our customers for it. I think you will believe that we get all we can. We have the reputation of trying to do that.

Q. Yes?—A. And if we went out and paid a cent a pound more it would mean we would sell beef for the same price, and we would lose the extra cent we paid. We have got to buy beef on the market.

Q. You will sell it having in mind what you paid for it. You will sell it for that much more, would you not?

By the Chairman:

Q. What fixes the price of beef on the market to-day?—A. I think you and I would have the same view on that. Perhaps you can explain better than I. I cannot tell you; but I know there are conditions that do fix it. I know if you go out to sell beef.

Q. What I am curious to know is, on what principle do you determine the price of beef? Now, I have a list here which is dated April 9th.—A. Yes?

Q. I notice in the same list there is another date, April 6th, April 7th and so on. Are these issued every day?—A. I do not know, I would not have thought they would be.

Q. Can you tell me how long it is good for?—A. If you asked our sales manager, the man in charge of our salesmen, he could give you all this information.

By Mr. Sommerville:

Q. The beef one is published every two days, I am told, and the pork price list every week?—A. I should think they issue new ones in an active market to register the changes in the prices; if there were no changes in the market they would carry along.

Q. The price list issued for the different products would be issued to register the changes in the market?—A. Yes.

Q. The market would regulate the sales price? I thought you told us a little while ago the sales prices regulated the market?—A. If I did say both of those things, they would be consistent with each other.

Mr. FACTOR: What was the price yesterday for choice beef?

The CHAIRMAN: Choice steer? I have them here for the whole year. Choice steer, \$4.75 to \$5.75 for May 31st.

Mr. FACTOR: What would that product sell as a processed product say, a certain portion of it?

Mr. SOMMERVILLE: Choice steer?

The WITNESS: $4.75.

By Mr. Factor:

Q. At what would it sell to the consumer?—A. Well, you tell me again I do not know much about my business, but I will try and guess at that. It would kill at about 52 per cent, say 50 per cent. to make it easier; that is 9½, and the by-products would be worth about 1½, so the beef would be about 8 cents a pound.

Mr. FACTOR: What would be the price of choice steer, last year, Mr. Sommerville?

The CHAIRMAN: I have not got it back that far; I have it back to February 10th.

Mr. KENNEDY (*Peace River*): Was there not a statement yesterday that beef was selling around 10 cents?

The CHAIRMAN: Cutter.

By Mr. Sommerville:

Q. On the basis of $4.75 you say that a choice steer would sell at about 8 cents a pound?—A. Yes; I mean it would dress about 50 per cent, which would make the price $9.50. Then you subtract about 1½ for the offal.

Q. There is something wrong there, because some of the cutter and boner stuff we discussed yesterday must have been bought for around 1½ cents a pound, and it was selling around 8 and 9 cents a pound.—A. I just heard about that this morning.

Q. It was taken from the records?—A. When you were taking some from our records, why didn't you let us check them up so we would be prepared to answer the question?

Q. You can check them up, Mr. McLean. This is just a memorandum showing the prices obtained for the cutters and boners?—A. Yes.

Q. And it is taken for the week of April 12th to April 19th?—A. If they got any cutters or boners at 10 cents a pound, it is wrong.

By Mr. Kennedy (Peace River):

Q. On this point of maintaining the packers' spread between the consumer and the farmer, is it not just as easy to maintain the spread if you pay the farmer a reasonable price as if you pay him 2 cents a pound for it?—A. If you got an outlet for it. The price we pay is determined entirely by the outlet that exists. Our duty to the farmer is to work to get the highest price possible all the time for the product.

Q. It is pretty hard to see that in the face of what the farmer has been getting.—A. I think we discharge that duty pretty well.

By Mr. Ilsley:

Q. You do the other too, don't you; you get what you buy from him as low as you can?—A. Yes, on every deal, of course; but remember, that does not imply any unfair attitude or any lack of sympathy on the part of the packer to the farmer.

Q. I am inclined to agree with you. I do not see why all the witnesses heard at this inquiry have tried to run away from that idea that they sell as high as they can, and as low as they can. It is a sort of universal trait in human nature?—A. That enters into the sale in every deal. If the price is say,

8 cents a pound, the farmer who is selling hogs tries to get $8\frac{1}{8}$ or $8\frac{1}{4}$, and the buyer who is buying tries to get it for $7\frac{1}{8}$ or tries to buy at $7\frac{7}{8}$ or $7\frac{3}{4}$. You see, that pull between the buyer and seller is anything that affects the interests of either; the interests of both of them are involved in having a general price level high enough to make the industry profitable to the farmer. Now, we are just as much interested in that as the farmer is, and while it is true we try to buy cheaply, the margin by which we try each to influence the other's prices, is a very narrow margin, and has no effect on the broad principle or the broad basis in which both our interests are identical.

By Mr. Factor:

Q. The price of beef has improved in the last six months?—A. Yes.

Q. What about the price that the consumer pays for the meat, has it gone up?—A. Yes, it has advanced.

Q. It has?—A. Yes, it must have.

Q. That is what I want to find out, whether or not it has; I did not notice it myself?—A. If you check up the records, you will find it has.

By Mr. Kennedy (Peace River):

Q. When the price rises to the farmer, it rises to the consumer?—A. Yes, it must.

Q. Has the consumer been able to buy, say, in the last few months, any more beef or less beef than he did two or three years before that, 1931 or 1932 when the price was so low?—A. I judge I am answering your question. You see, last year when the price of beef was so low, the consumption took a tremendous swing away from hogs, which were advancing, and the price of beef was low. That always happens. The cheaper meat is, the more of it is used, and that tends itself, to automatically correct the situation.

Q. Is there a lessening consumption to-day of beef and pork at the advanced prices to what we had a year ago when prices were low?—A. In our own case, domestic consumption, domestic sales of provisions, pork products in the year, in our year which ended March, 1934, so we will say the year 1923, to make it simple, was about 30 per cent less than in the year 1932, when hogs were so low.

Q. Pork?—A. Yes.

Q. The prices of both are up to-day, has that decreased the consumption of total meat products?—A. I really cannot answer that question.

Q. I think that is the question. This argument about pork alone or beef alone does not touch the problem. My point is this, that it would seem to indicate from some of the answers that fears are expressed or implied that if you raise the price to the farmer, the demand would drop off. If we accept that, we might as well go out of the farming business right now, finish with it? —A. I do not think anybody seriously—there was a time 20 years ago when the whole attack on the packing industry was because prices were too high. Since 1929 we have pretty well got away from that.

Q. The other extreme was brought along?—A. Yes.

Q. What would you think of a minimum price on good hogs and good cattle?

Mr. Sommerville: One grade.

Mr. Kennedy *(Peace River):* That would prevent your competitor from buying under it?

The Witness: You are asking a question, what you are suggesting might be done, I think, by some authority, either governmental or by association in the industry.

By Mr. Kennedy (Peace River):

Q. A minimum price on the best quality?—A. Fix our own prices. I have got to answer that in a phrase, I do not think it could be done.

Q. You do not think it could be done?—A. No.

By Mr. Sommerville:

Q. You would still be on the same basis on which you are selling to-day, having taken into consideration your cost?—A. Well, you see——

Q. Would you not?—A. If we were an importing country such as Great Britain, it could be done; at least it could be started. Their plan is working out pretty well so far, but there are already difficulties in sight.

Q. In this country which is a beef country, and we have already had a statement and 97½ per cent of the beef raised is consumed here— —A. That is not correct.

Q. That was your statement?—A. No.

Mr. Kennedy (*Peace River*): 90 per cent anyway.

The Chairman: Just about 98.

The Witness: I will tell you what the statement was, you need not look it up. It was that last year 2½ per cent was exported.

The Chairman: Yes.

The Witness: That is a different thing. You are phrasing it in a way I did not mean.

By Mr. Sommerville:

Q. It was 95 per cent.—A. Well—

Q. Because last year's shipment was larger than other years.—A. Canada's normal surplus of cattle is about 250,000 to 300,000. That is the number we used to ship to United States, I think, over an average of five years before we were cut off there, our shipments to the States were 250,000 a year. That is what is the matter with our beef market; we have lost the American market.

By Mr. Kennedy (Winnipeg):

Q. Will you allow me a question?—A. Yes, sir.

Q. With reference to Mr. D. M. Kennedy's suggestion about the solution of a minimum price fixed for a definite grade, suppose such action were taken, would not it be very readily evaded by off-gradings or buying at off grades, whether real or imaginary?—A. There would be a thousand ways of evading it. You see, half of the beef sold in Canada never sees the packing house, it is killed in the farmer's yard, or in the villages.

Q. Apart from that, assume that it all goes through the packing house, it occurs to me— —A. Yes?

Q. —I do not know anything about those evasions, but it occurs to me it would be the easiest thing in the world to evade such a law?—A. Yes, it would be.

Q. And not only from the point of view of the packing people who are buying, but from the point of view of the producer who wants to make a deal. He could readily evade it by saying, we will sell you such and such a grade?—A. Yes.

By Mr. Kennedy (Peace River):

Q. Would government grading of cattle prevent that?—A. Government grading could not prevent people doing the things they wish to do. Remember, if the things were sound in themselves it could be done. It is because I do not think it is sound in itself, my opinion is that it could not.

Q. If you had a minimum price for a certain type of steer, I do not think the average farmer would be anxious to sell that steer at a lower price?—A. He

might very well be, if there were more steers of the type in the country than could readily be consumed.

Q. I never saw a farmer yet who tried to sell his produce at a lower price than the market price.—A. That is not the point. Do you wish me to continue?

By Mr. Sommerville:

Q. I want you to give an answer you think is right.—A. Suppose there were a thousand steers of that type in the country or community, and only 900 could be consumed, every farmer would know that only 900 steers could be sold, and that he might have his steer left on his hands, and as he would say, that won't be very good for me, he would say I had better shade the price a quarter of a cent. It would be in his interest to do that, if the situation were as I have described. The farmer would act in his own interest just as—

By Mr. Kennedy (Peace River):

Q. Even if he did shade it a quarter of a cent, that would be nothing to what he is shaded now. He is shaded now about 5 cents?—A. The price has been extremely low.

Q. Terrible.—A. It is not the packer that has made it low. Each packer is just as anxious to see a high price for steers as the farmer is.

By Mr. Sommerville:

Q. You were just saying there was a surplus of beef in this country?—A. Yes.

Q. Are there any shipments of cattle in this country from any other country?—A. No.

Q. Are there any shipments of quarters of cuts of beef? Are you contemplating importing beef from Australia?—A. There are shipments into the ports of frozen beef for ships' supplies.

Q. That is to say, do you buy Australian beef?—A. Yes.

Q. And bring it in?—A. Yes.

Q. And it is the ports of— —A. Montreal, Saint John.

Q. And Vancouver?—A. No; we do not operate there.

Q. You bring it in from Australia?—A. Australia and New Zealand.

Q. You bring in frozen beef?—A. Yes.

Q. And then you sell that frozen beef to ships sailing out of those ports?—A. Held in bond at the port.

Q. Is not that a supply that should be filled from Canada and help to relieve this surplus that we have in Canada?—A. Well, it depends on your view, whether it should be excluded or not.

By the Chairman:

Q. As a friend of the farmer, do you think that is good practice?—A. I do not think it a fair question to ask me.

Q. I think it is a very pertinent question, myself.—A. I do not think it is; I do not think it is fair.

Q. You have said, Mr. McLean,— —A. I said we do it.

Q. —that you are just as much interested in the farmer's welfare as he is?—A. Yes.

Q. You said that several times?—A. Yes.

Q. You know that there is a surplus of beef in this country; you know the farmer is getting a very very low price for his beef; I am asking you, if you think it is sound Canadian business to encourage the bringing in of frozen beef from other countries who happen for the moment to be able to sell it cheaper than we can, into this country, and deny the Canadian farmer the

chance to supply the market?—A. I do not think it is my duty to protect the Canadian farmer; if he needs the protection, it is yours.

Q. Quite so.

By Mr. Kennedy (Winnipeg):

Q. Just on that point, if you did not do it, what competition would you be up against in the matter of frozen beef for ships?—A. If we did not bring it in, somebody else would.

Q. It is a question of competition in trade?—A. Yes, because everybody in the ship supplying business handles it, because it is recognized; it has always been done.

By Mr. Factor:

Q. I suppose we have to buy something from Australia?—A. Yes, we buy and sell them all we can. Mr. Stevens made a treaty with them; he might suggest we cut that off.

By Mr. Ilsley:

Q. Let me put it this way: If the government, because it wants to trade with Australia, won't prevent this product coming in, do you think there is any duty devolving on you to stop it?—A. I would admit, it is an arguable point. I will just say that we have not considered it, and I have told you the facts about what we did, and you can form your own opinion as to whether we considered anybody or otherwise.

By Mr. Kennedy (Winnipeg):

Q. You say that if you did not do it, your competitors would?—A. Yes.

Q. Let us go a step further. Suppose it was made impossible for you or your competitors to bring in that frozen beef?—A. Yes.

Q. For shipping from ports, would it improve the condition of the farmers in this country?—A. Oh, the percentage of it is infinitesimal.

Q. It is?—A. Yes, not important.

By Mr. Ilsley:

Q. It might annoy Australia and perhaps cause them to stop buying from us?—A. Yes, it might. There are two sides to any question, but we are moving more and more towards economic nationalism. It is not my function here to tell you gentlemen what is the right thing to do, except so long as it is perfectly legal and it sounds to us as a perfectly proper thing for us to do and we have done it.

By the Chairman:

Q. You were saying a moment ago that one of the difficulties was that the export of beef had been prevented into the United States by that heavy tariff two years ago?—A. Yes.

Q. And that was one of our problems?—A. Yes.

Q. Therefore, anything in the world that we can do to encourage the export of beef or beef products, should be encouraged?—A. Yes.

Q. And ships' stores is an export of beef products?—A. Yes.

Mr. ILSLEY: Providing we do not sacrifice other national and imperial interests?—A. You would put that in, would you not?

The CHAIRMAN: I would put the Canadian interest first.

By Mr. Kennedy (Peace River):

Q. What is the reason Canada did not ship more pork products to the British market in the last year, since we had that agreement?—A. You asked

that this morning. I think Canada shipped every pound of pork product, I would say offhand, that she could spare last year. You see, our own domestic consumption was reduced about 30 per cent.

Q. Suppose you raise the price of pork products domestically, would it not cause a swing to beef, and increase the market so far as beef is concerned, and other meat products?—A. Well, there is another thing to add to that, that the bacon, the pork products that we did ship out, were so heavy that we were getting down into the grade that the Englishmen did not want,—the English market does not readily take,—we have only got a narrow fringe of the best hogs in Canada.

Mr. FACTOR: A narrow fringe?

The WITNESS: Comparatively, 20 per cent.

Mr. FACTOR: The farmer has been encouraged to produce better animals?

The WITNESS: Yes.

By Mr. Kennedy (Peace River):

Q. Don't you think it was a mistake to reduce the premium on hogs which was done some years ago? If we had retained the premium of $2 a hog instead of $1 as it has been since 1925 or 1926, we would not have a larger volume of select hogs in Canada?—A. I am glad you asked me that question, because I was very interested in the discussion this morning. I think one thing you have got to keep in mind in fixing differentials, either up or down, is that you must not get too far away from intrinsic values. If you do get too far away from intrinsic values for this market or the export market, then you create a situation in which there is a temptation immediately to violate the differentials. I think the practice of buying hogs on grade is sound, and I think it has resulted in a more rapid improvement in our hogs than we would otherwise have had. I think the differentials down have contributed just the same as the premium, but if you make them too wide, I think you do more harm than good.

In regard to another phase of that, if I may speak on my own now—you have not asked me about that—in regard to a problem that was discussed this morning, it seems to me the answer to a good many of the phases of that subject of differentials that were discussed this morning is this, that by and large all the hogs that are produced in Canada will command a certain price no matter under what system they are bought. That price will be determined by the outlet for the product. Whether you have differentials or buy flat, or whether you have wider differentials or narrower ones, all the farmers will get for all the hogs that will be produced will be practically the same, no matter under what system of buying.

By Mr. Sommerville:

Q. I think you explained that to us before. Let me point this out to you: Why is it that you will not let the farmer sell the lower grades, and you take the higher grades?—A. Mr. Law explained that this morning and explained it very clearly. He said this, and it is a fact: In actual practice the premium you pay for the select hogs is rather more than the superior intrinsic quality of those hogs justifies, and therefore it is only fair that, having paid the premium for the higher grade hogs, you get the advantage of the differential on the lower grades, which is again rather more than the intrinsic inferiority justifies.

Q. Yes, but the premium on your select hogs is a dollar a hog?—A. Yes.

Q. On the very first grade, butchers, the differential is a dollar a hog?—A. Yes.

Q. And the next grade, lights, a dollar a hog?—A. Yes.

Q. And the next grade, heavies, $2 a hog?—A. Yes.

Q. Don't you see that your differentials below the cost more than offset any dollars that you pay on the smaller proportion above the scale of the bacon hogs?—A. That is right, because there is more difference in intrinsic value.

Q. Yes, but don't you agree with Mr. Law this morning, who said that as soon as they go through the killing room the hogs lose their identity, and you make them up either as Wiltshires or as cuts, hams or bacons, from each of the grades for the old country market, and some from each of the grades for the domestic market?—A. Mr. Law didn't say that at all, and if he seemed to say that it was because he didn't understand your question, because it could not be—Mr. Law could not say that. He is a very experienced and very competent packing house man. These hogs are not worth the same when you cut them up and get them into the packing house.

Q. I said they were made up for export purposes?—A. But they are not.

Q. Then Mr. Law was telling us what was wrong when he said they made them from some butchers— —A. No, but—

Q. Now, wait a minute. Mr. Law's sworn statement, when he was given an opportunity, was that they made up Wiltshire sides from butchers?—A. I am very doubtful if he said that.

Q. Well, you do?—A. No, I don't.

Q. Canada Packers do not make Wiltshire sides from butcher hogs?—A. I don't think there is a single butcher hog goes into a Wiltshire side; and if it has, it has been because it is wrongly graded. Wiltshire sides are shipped entirely from exports and bacons.

Q. From exports and bacons?—A. Yes.

Q. Selects and bacons?—A. Selects and bacons.

Q. Wiltshires sides are?—A. Yes.

Q. All right, that is the experience in your plant?—A. I should think it is everywhere.

Q. Don't you make hams, bacons and shoulders from your butchers, lights and heavies?—A. Oh, yes.

Q. And they go to the English market?—A. Well, I should think there would be hams that would go out of the butchers.

Q. And out of the heavies, some of them?—A. No—well, there might be heavy hams. There is another trade in heavy hams at a lower price.

Q. And some of the lighter cuts from the light hogs?—A. Well, I should think there would be very few light cuts.

Q. Then there is another phase of the differential. Is it not a fact that there are a number of butchers who would buy these lower grade hogs for the domestic market if they could buy them without having to buy the entire series of grades, selects and premiums?—A. I suppose there are.

Q. If they were bidding on those grades at their own value, there would be more competition when you buy those grades?—A. They actually do get them. If there are butchers for that class of trade, they do get them. I don't know just how they get them, but they get them.

Q. That is notwithstanding the demand that you get all grades throughout?—A. That is a perfectly fair demand.

Q. I am not questioning your demand. But notwithstanding your demand, you say they do get them. As a matter of fact, they get some products from the packers, don't they?—A. Oh, yes, no doubt of that.

Q. One of the reasons for it being that they cannot get enough of these grades to kill themselves, and they buy the product then from the packer who has killed?—A. These are men with small businesses, and I should think that probably it is more profitable for them to buy the product.

Q. They apparently did engage in competition for those lower grades up until the last few years, and it has become increasingly difficult, according to the evidence here, for them to get those lower grades because of the insistence that

the packers get all the grades?—A. Well, I doubt if that is the case, but I don't know the individuals you are speaking of.

Q. Well, the evidence was given us here by the commission men who sell, and who are familiar with the conditions?—A. I see.

Q. There is another phase of it. We were dealing with the question of cutters and boners yesterday. We had a list supplied us of cutters and boners shipped to all parts of the country, Ontario, Nova Scotia, New Brunswick, as well as Quebec, at apparently as high as $9\frac{1}{2}$, 10, $6\frac{1}{2}$, $8\frac{1}{2}$, $8\frac{1}{2}$, $9\frac{1}{2}$, 8, 10, 6, $7\frac{1}{2}$, $6\frac{1}{2}$, 7, 6, 5, $6\frac{1}{2}$, $8\frac{1}{2}$ and 7 cents?—A. Yes.

Q. Now, if these cutters, which Mr. Law described as being the lowest grade —15 per cent of the lowest grade—go into the fresh meat trade, do they not interfere with the sale of good beef?—A. Oh, yes, they would displace it.

Q. They would displace good beef?—A. Yes.

Q. At the prices that are quoted, does that not seem to be a very large price for cutters?—A. It is possible it might be a cutter—there are also cutter steers and cutter heifers, and this might be the hind quarter of a loin of a cutter steer or a cutter heifer.

Q. Well, they are cutters?—A. Well, in the ordinary nomenclature of the trade, a cutter is a cow that is finished and just a grade above a canner. A canner is a cow that is practically just skin and bones, you see. A cutter is a rather higher grade.

Q. When you say a canner, is that the same as a boner?—A. Yes.

Q. Sometimes called a boner?—A. Yes, boner or canner.

Q. I see a number of boners that have gone in the same way, 4 cents, $3\frac{1}{4}$, 5, 4, 4, 6, $8\frac{1}{2}$, $3\frac{1}{2}$, 5, $4\frac{1}{2}$, $6\frac{1}{2}$, $6\frac{1}{2}$, 7, $6\frac{1}{2}$, $4\frac{1}{2}$ cents. Now, boners being the lowest grade going in, would still further displace good beef in the fresh meat trade? —A. Yes.

Q. Is there any suggestion you have to make to this committee as to how the lower grades could be removed from the fresh meat trade and thus give a better opportunity to the farmer who has a better grade of stock for sale?—A. Well, that point was raised. I was speaking with Mr. Stevens the other day, and that was the first time I had heard that suggestion. I don't think that an offhand opinion, under conditions like these, is the best way to get the value of whatever opinion I have got on it. It would be quite a shock to those who wish to sell boners and cutters to say that we no longer wish to buy them; and it would also be a bit of a shock to those who wish to buy that stuff. For instance, in the city of Montreal there are a good many butcher shops that use pretty inferior beef. However, it might well be worth considering whether or not that inferior beef should be removed out of the domestic trade at a time when we have a surplus. But as to the technique of working that out, as I told you, I had never thought of it until Mr. Stevens mentioned it to me the other day.

By the Chairman:

Q. May I ask you this: What goes into oil and shortening and stuff like that?—A. Well, shortening is made in Canada, in actual practice, almost entirely from vegetable oils, cottonseed oil and peanut oil.

Q. What about oil? Is that taken from your fats?—A. No, the oil is that cottonseed oil and peanut oil. We sell some oil as well as selling shortening that is produced from the oil.

Q. What class of stuff do you put into your rendering plants and fertilizer and so on?—A. All the animal fats that come off the killing floor are selected and all rendered. The higher grades of the beef fat are made into edible tallow, and the lower grades into inedible tallow and grease.

Q. For soap, and so on?—A. Yes. The higher grades of the hog fat are made into lard, and the lower grades again into grease. The two lowest grades,

the lowest grade of beef fat and the lowest grade of hog fat are mixed into what is called packing house grease.

By Mr. Sommerville:

Q. There is one other subject that has been raised during this last two days, and that is the question of the wage scale at each of the packing plants. Observations by Mr. Heaps were directed to the question of the wage scale in the Hull plant. Some 25·6 per cent of your employees there were paid 19 cents or less, and 17.60 per cent were paid 15 cents per hour?—A. Yes.

Q. In view of the fact that last year was the most profitable year in the history of Canada Packers since it was organized seven years ago, the question is asked: How do you justify a wage scale as low as that scale, Mr. McLean?—Well, to be quite frank with you, I don't feel so very proud of those wages.

By Mr. Ilsley:

Q. They comply with the law, do they? I didn't think they did?—A. Yes, they comply with the law.

Q. I am speaking about the female labour in Hull?—A. Yes. I am told by our Hull manager that they are in line with the wages paid in Hull. But in spite of all that, I must admit to you that I don't feel very proud of them.

By Mr. Sommerville:

Q. Of course, even if they are in line, they are in line with a condition that is a desperate one at the present time, in unemployment in this country?—A. There is just one thing I would like to say on the other side, and that is that although our wages at Hull are lower, and quite considerably lower than in Toronto, the efficiency of our labour in Hull which we measure, I think, pretty accurately, is such that it costs us more to have the same operations done in our Hull plant than it does in our Toronto plant. If it had not been for that situation, those wages would have been raised long ago. I knew those wages were low.

By Mr. Factor:

Q. Mr. McLean, 80 per cent of your employees in Hull get an average of $28\frac{1}{4}$ cents per hour?—A. Yes.

Q. Do you consider that is too low?—A. Well, I consider it is a very low wage.

Q. What is there to prevent you from increasing those wages? I mean, you are a leading man in the city. What is there to prevent that?—A. I have been in correspondence with the manager of our Hull plant for some months, long before this came up, long before this committee began, and the wages question came prominently to my attention. I stated that I could not understand why our plant operations cost more in Hull than they did in Toronto, although our wages are so much lower, and asked him to try and elevate his plant efficiency to a point that would enable him to raise his whole wages. We have not succeeded yet in doing that.

By Mr. Sommerville:

Q. But if he is being criticized for the cost of his product in Hull, he is not likely to raise wages?—A. Oh, yes, you see, if we can raise the efficiency of his work. He would like to raise their wages, too, and we are anxious for him to do so.

By the Chairman:

Q. Do you apply the Bedaux system there?—A. No, we have no such system anywhere.

Q. You don't use it at all?—A. No.

By Mr. Factor:

Q. Go back for a moment, if you will, to the Toronto plant. You have got 1,191 employees there, and their average hourly wage is $39\frac{3}{4}$ cents. What is their weekly time? What time do they work?

Mr. SOMMERVILLE: 48 hours, Mr. McLean says, in the Toronto plant.

The WITNESS: Yes.

Mr. FACTOR: That is a weekly wage of what?

Mr. SOMMERVILLE: $17.50.

By Mr. Factor:

Q. That is not very adequate pay for the kind of work they have to do, is it, for married men?—A. Well, these conditions are determined, Mr. Factor, by the average rates that prevail in the community and by the rates paid by our competitors; and I think they compare quite favourably with the average of the rates paid in Toronto.

By Mr. Sommerville:

Q. Here is your competitor, Hunnisett, who pays 47 cents, and your competitor Swift pays 43 cents. Those are your only competitors at Toronto?—A. Yes.

Q. That is 10 to 20 per cent more?—A. Yes. Our rates are the same as Swifts, except that they have bonuses under the Bedaux system. In the case of Hunnisett, the average rates are not comparable at all because Hunnisett has only a fresh meat plant and he engages a higher class.

By Mr. Factor:

Q. They only have 38 employees?—A. Yes.

Q. But you are one of the leading citizens in Toronto. How can a married man with a family exist on a $18 a week wage?—A. A great many of them do.

Q. Considering the kind of work that they do in the packing plant—I was through one of them at one time—what do you say?—A. It is not unpleasant work, and the conditions are very good. I don't know when you were through, but I think if you went through our plant in Toronto you would think that the men worked under very good conditions.

By Mr. Kennedy (Winnipeg):

Q. Mr. McLean, may I have your attention just for a minute?—A. Yes.

Q. I think the point of view was put forward, either by you or one of the others in connection with this inquiry into the packing business, that there is a certain amount of suspicion between the farmers and the packing interests?—A. Yes.

Q. And that they had not been able to get together?—A. Yes.

Q. And that it would be desirable, in the interests of both, if that feeling could be eliminated?—A. Yes.

Q. That is a sound principle?—A. Yes.

Q. Just transpose that to the relationship between your employees, for instance in the Hull plant, and your company. You have intimated that if they could be brought up in their scale of efficiency, then they might be paid a higher wage?—A. Yes.

Q. What would you think of this idea—and I am not trying to tell you how to run your business, but it is a theory—what would you think of the idea of say where they are poorly paid, or paid such low wages, if they were brought together and as a company you said to them, "We don't think you can live on these wages. We are going to raise all your wages, but we will expect you to do

better for us." Don't you think that would have an appeal to the people? Don't you think you would get more out of them?—A. I think so. I think that is exactly what we should have done at Hull.

Q. If you put it the other way, and instead of saying, "It is true you are getting low wages, but, unless you can give us more efficiency, you are not going to get any better pay", you appealed to the other side of them and said, "Here, we are going to raise your wages and we will expect you to be more efficient", it would be better. Do you agree with that?—A. Yes, I do. To tell the truth, I am a little ashamed of this Hull situation.

Mr. KENNEDY (*Winnipeg*): I think that is a very frank statement to make.

By Mr. Sommerville:

Q. With reference to the Toronto situation, with a wage of $18 or $17.50 a week as has been referred to by Mr. Factor as the average wage for such a large number of employees, 1,050, you say that is in keeping with the wage in the locality, and one has to keep in mind the wages paid by competitors?—A. Yes.

Q. You are better off in that respect by considerable than your competitors, Mr. McLean; but you have made ample provision out of your profits this year, as you have for each of the last seven years, for very large depreciation allowance in connection with your plants, $750,000 a year. According to the auditors, that depreciation allowance, if continued for six and a half years or six and three quarter years on the same basis, will entirely wipe out all the depreciable assets of the Canada Packers. That is an extremely generous depreciation allowance that will do that in six and three-quarter years, is it not?—A. Yes.

Q. Is there not something that could be done by way of revising your depreciation allowance, and doing something for the human element in the plant by way of increasing the wages of the men who are in your employ?—A. I am glad you are giving me an opportunity to refer to that. Canada Packers, when it was formed, took over, as you mention, twelve packing plants. As a matter of fact, there were really only ten packing plants. Part of the plan in taking them over was to close several of them and to link up others. We took them over at a valuation. You will see there is a discrepancy between what we paid for them and what we carry them on our books at, $5,000,000.

Q. Nearly $6,000,000?—A. Appraisal surplus.

Q. Appraisal surplus of nearly $6,000,000?—A. I maintain that is a perfectly valid asset. We bought this business. The transaction that occurred actually was this, that Harris Abattoir Company bought the three other businesses. The three other businesses had not been making profits for a number of years, and for that reason we bought them cheaply; and it is quite a proper thing to set up assets on that basis. Having succeeded in making profits, using those plants so as to make a profit, we have increased their value. That is a principle that applies in every business. If you buy C.P.R. stock to-day, you can get it at $16.50 a share because it is not paying dividends, but if it starts to pay dividends next year it will worth $30 or $40 or $50 a share, and it will be a perfectly proper profit. So that I don't think it would be a fair thing to eliminate that time of appraisal surplus, which is exactly what you have said, the difference between the value and cost. In regard to depreciation, we are going to change our depreciation. The only sound business practice when Canada Packers was formed was to depreciate on the scale that we did, because we knew that we had to close up several of the plants; and the largest and most expensive plant of all is absolutely dark, namely William Davies plant in Toronto. No other practice would have been sound, as I am sure you will admit yourselves, and we had to follow the depreciation practice that we did. But we have got to the point now where we propose to lessen our depreciation. We have not done that at the present time, or up to the present time. I am not sure

we will do it this year, but if we do not do it this year, we certainly will do it next year.

Q. I don't see how such a depreciation practice could possibly be permitted to continue, that would wipe out the entire plant in six and three-quarter years? —A. No.

Q. Because you have spent in that time in repair charges on the plant some $2,500,000?—A. That also was necessary. Those plants were very much run down.

By Mr. Factor:

Q. Mr. McLean, going back to the wage question, in the year ending March 29, 1934, did you operate full time?—A. Pretty well.

Q. Pretty well full time?—A. Yes. In some departments we did not, but in most of them I think our employees had pretty well full time.

Mr. FACTOR: I just wanted to get at the actual earnings of these hourly employees.

Mr. SOMMERVILLE: In what plants?

Mr. FACTOR: In the Toronto plant.

By Mr. Factor:

Q. The hourly rate does not necessarily mean that they actually earn that? —A. I think you can check that by the figure Mr. Sommerville already has. I think you told me our average wages were $17.25 a week.

By Mr. Sommerville:

Q. I think they reckoned it roughly at $17.50, that is the average rate?— A. No, but you had the average. You remember when I was here last you gave me that figure. It was $17.

Q. For a few weeks?—A. No, that is for the year, which would mean that they worked practically full time.

By Mr. Factor:

Q. In the operating year ending March 29, 1934, you made a net operating profit of $1,747,000——A. Yes.

Q. I wanted to get at the actual earnings paid to the Toronto employees during that year?—A. Yes.

Q. The hourly rate will not represent the actual earnings of those employees?—A. Well, I think it works out at about the actual full time.

Q. You mean they were employed full time?

Mr. SOMMERVILLE: Yes, in a limited number of cases.

The WITNESS: I think you have that figure. Your auditors had supplied you with that the last time I was here.

Mr. SOMMERVILLE: I don't think so; just for one department.

The WITNESS: I will be glad to get that for you, but I think I can tell you that that is a fact.

By Mr. Factor:

Q. About $17; I mean, that is the actual rate?—A. For the actual time worked. You will see that in certain seasons of the year—in the fall, for instance—we have a good deal of overtime.

By Mr. Sommerville:

Q. I have got it here. The average wage per week to these 1,239 employees is $17.20, including the wages paid to foremen?—A. Yes.

Q. But we are getting away from this question of depreciation. You are saying that you are depreciating upon the values that were being carried in the books of the companies that you acquired, and you thought that was good practice. The point is it is not what the assets were worth but what you paid for them that should be the basis of depreciation that is charged against your annual earnings?—A. I don't agree with that.

Q. You don't agree with that?—A. No.

Q. All right then, we will just agree to differ?—A. Yes.

Q. Then in addition to that, you had been and are carrying—and it doubtless adds to your overhead—substantial buildings that are not really required at the present time in connection with the operation of Canada Packers?—A. Yes.

Q. And these buildings and equipment amount to the sum of, I think it was said, some $3,000,000 or $4,000,000 at least?—A. Yes.

Q. So that for the efficient management of the operations of your company you could really do without $4,000,000 or $5,000,000 of assets?—A. Yes.

Q. Which at present add to the overhead?—A. Yes.

Q. And are charged against profits of your company?—A. Yes.

Q. This year, in addition to the profits of about $1,800,000?—A. No, $1,400,000.

Q. Well, let us take the $1,400,000 then. You have deducted an amount of some $450,000 for an allowance towards income tax?—A. Yes.

Q. That is not in respect of this year, but in respect of some past years?—A. That came up when I was here the other day, so I looked up the facts. I have them here.

Q. I mean, it is being charged against this year's operations?—A. Yes.

Q. Whereas it was an item in respect of some adjustments on past years' income tax?—A. Yes, it can't be done in any other way.

Q. I am not complaining about that. I am just intimating that that is an amount that is three times what was charged for income tax in previous years?—A. No, you were a little wrong both ways on the figures. The way this situation has arisen is this: That income tax is always two or three years behind your operations. The Income Tax Department is always two or three years behind.

Q. I would think they would be longer than that?—A. We made in previous years what we considered the proper set-up or proper reserves for our income tax, but owing to changes in the law and owing to interpretations of the Income Tax Department these allowances that we had set up in previous years were not sufficient.

Q. Probably owing to depreciation allowances that were not allowed?—A. That has arisen just recently. In the year ending March, 1929, we set up $112,000 and the tax we actually paid was $181,000; and for the year ending March, 1930, we set up $132,000 and the actual tax was $196,000; and for the following year we set up $71,600 and the actual tax is $151,000. The completion of these assessments has been within the last fiscal year and we had to make up the discrepancy. That accounts for the very high appropriation in this year.

Q. You paid those amounts, did you not, in each of those years?—A. Oh, no.

Q. They have been paid, have they not?—A. We paid, when we sent in our income tax return at the end of each year—we send the cheque for the sum that we estimated was due. They are these sums I have given you.

Q. And these have been calculated as additional amounts?—A. Yes.

Q. So that you had $1,400,000 odd and $400,000 odd income tax and $753,000 for depreciation. Then there was—I do not know the amount of your bonus distribution this year that did not take place the previous year—what amount did you distribute in bonuses?—A. I do not know. I forgot to look that up. I remember I mentioned $122,000.

Q. For Toronto and Winnipeg?—A. I was surprised it was that high. I think that is too high, and I think that the total amount was about $140,000. It was completed while I was away.

Q. $140,000 of bonus distribution among executives and heads of departments?—A. Our whole staff.

Q. And a number of your staff?—A. Yes.

By Mr. Kennedy (Peace River):

Q. I would like to ask you about the future of the British market. We have a big quota and you have not been able to take advantage of it to more than one-tenth?—A. Forty per cent. The quota amounts to roughly two and a half million hogs a year and this year we will export at least one million hogs which will be 40 per cent, and I expect this year will be more than that. However, there is a great deal of leaway yet. But I am glad of the opportunity of getting whatever publicity is possible here for this English situation because I believe it is very important in our hog industry. I have just come back from England. You see the great thing we require to improve our British hog industry and our Canadian hog industry, which is exactly the same thing, is a better hog. We are selling our product for 5 shillings and 6 shillings less than the Denmark product. That is a very important issue. I told you when I was here last that it amounts to $12,000,000—6,000,000 hogs at $2 a hog is $12,000,000 a year. That is going to become very much more important when this Ottawa treaty expires in two years, because there will be undoubtedly then a revision of the treaty and if our hogs are not as good as the Danish hogs I am afraid our hog industry may be thrown into a very serious situation, and I do think that the knowledge of the fact—the comprehension of that should be broadcast to the Canadian farmer to show the urgency of this problem of improving the hogs.

Q. The last day you were here I remember mentioning to you that a great many of the farmers felt you were drawing down a tremendously large salary for these hard times. I wonder if it would not be a good thing if you told them what it was?—A. Well, nobody else has been asked that question.

Q. Yes, we were getting the salaries from the executives?—A. Why am I honoured especially?

Q. You were one of the chief propagandists for the packers among the farmers, and a great many of them think that Canada Packers is leading the drive for prices and controlling the situation and getting a big rake-off?—A. I haven't any objection to telling you my salary. I would like to correct one statement that I made to Mr. Kennedy. I told him—

The CHAIRMAN: You are at liberty not to do it unless you like.

The WITNESS: Thank you very much. Mr. Kennedy said it was a common report that my salary was $50,000, and I said my salary was a good deal less than half of that, and that was reported. Now, that was the case when I was here before, but as the result of a better year that we had, and as a part of the general bonus distribution, my salary was increased for last year's operations to $25,000; it had previously been $20,000.

By Mr. Sommerville:

Q. That is salary plus bonus?—A. Yes.

Mr. FACTOR: After listening to the salaries in connection with the tobacco business you cannot shock us.

The WITNESS: I do not make any apology for my salary. I think I earn it.

By Mr. Kennedy (Peace River):

Q. There was another statement you made the first time you were here and it was that the packing industry was generally in a rather bad way. Would you still say that in view of the records?—A. I decidedly would.

Q. You would?—A. Yes, wouldn't you?

The CHAIRMAN: I do wish that a good many other industries were able to show as good a return.

Mr. KENNEDY (*Peace River*): I wish I could pay myself a salary and allow for depreciation. If I could pay myself a salary I would not worry if I got depreciation or anything else.

The CHAIRMAN: Now, gentlemen, we must try to get along.

By Mr. Ilsley:

Q. Just a question. There are two of these auditor's statements—two portions of the auditor's statements that Mr. McLean has challenged?—A. Yes.

Q. He indicated that he desires to challenge them?—A. Yes.

Q. Now, I would suggest that he send in what he has to say about these prices for boners and cutters and canners. And also about those margins between the code and the list price.

The CHAIRMAN: Will you do that?

The WITNESS: Yes.

The CHAIRMAN: Now, we have one witness, and I think we will call him for a short time. With regard to the witness whom we are about to call, I think it ought to be understood that we are not here sitting in judgment on the dispute between the claims of different classes of shareholders of the company concerned. All we want to know in connection with it, as I understand it, is the reason for the expansion to this new sphere which has been achieved in the capital structure of Burns. We are not investigating disputes between classes of shareholders of Burns.

Mr. FACTOR: Oh no.

Mr. KENNEDY (*Peace River*): We want to get the facts, Mr. Chairman, regardless of what they may be.

The CHAIRMAN: However, having that in mind I suggest that we keep that thought before us.

Mr. FACTOR: Can we do that in 20 minutes, or do you want to sit until we finish.

The CHAIRMAN: As for myself, I cannot sit later than six, or a few minutes after.

Mr. FACTOR: I do not think there is any hope of our getting through.

The CHAIRMAN: We will go on for twenty minutes.

ARTHUR F. WHITE, called and sworn.

By Mr. Sommerville:

Q. You are from the Dominion Securities Corporation?—A. Yes.

Q. And you have knowledge of the business of P. Burns Limited?—A. Yes, sir.

Q. And the Dominion Securities Corporation have charge of the reorganization of that company in the year 1928?—A. Yes, sir.

Q. At that time what was the position of the old company, as far as its stock structure was concerned; and what reorganization took place?—A. Would

you permit me, sir, to supply to each member of the committee a very concise statement of the whole transaction, which I think we could go over very quickly.

Q. Yes?—A. Sir, may I say at the outset that we have been intimately associated with the Burns Company and its financing since 1909. Since that time we have on several occasions furnished the company with additional working capital, required for its expansion, by the issue of bonds and shares. We have watched this company grow from gross earnings of very small figures, to as high as $1,400,000. Now, some time in 1927 Mr. Burns indicated a disposition on his part to retire, due to his advancing years, and sell out. Naturally he spoke to us about that. Our conversations lasted over a year.

Q. Relating to the terms on which he would sell out?—A. There was no disposition on his part, or on ours, to rush it. However, as these conversations developed into what you might call negotiations, this is the transaction as it finally developed. There had, so far as we know, never been an appraisal made of the assets; so we stipulated that an appraisal must be made, and you will see illustrated here on the left hand under assets, the first item, the result of the Canadian Appraisal Company's estimate of the replacement value new of the whole fixed assets.

By Mr. Factor:

Q. What do you mean by, "the replacement value new"?—A. That is exactly as stated in there.

By Mr. Sommerville:

Q. That is, without any deductions for depreciation in the years in which they have been in use?—A. That was the move that we made in our effort to establish the value of these assets.

Q. But, Mr. White, at this point might I ask: is that the usual basis of valuation, appraisal value new, on buildings that have been in use for so many years, and against which there had been written off so much depreciation?—A. With your permission, if you let me go on, you see what we have dealt with as we proceed. I will be prepared to enlarge on it later, if I have not satisfied you in the meantime.

Q. The net result of the appraisal showed an increase over the amount at which the assets were previously carried on the books of the old company of $4,860,608?—A. Right.

Q. In other words, those assets were written up by that amount, I suppose, as a result of that appraisal?—A. I will come to that in a moment, gentlemen, if you don't mind. The fixed assets, consisting of real estate, plant, machinery and equipment at replacement value new appraised by the Canadian Appraisal Company, less purchase money mortgages amounted to $10,845,464. The net liquid assets were $4,366,339. Investments in shares and securities of, and advances to other companies, and other assets, amounted to $586,268.

Now then, on an investigation of the whole situation, we found that there were a lot of assets there—certain other assets, consisting of ranch lands, buildings, cattle, town and city property, etc. which was subsequently purchased by Senator Burns (subject to certain liabilities amounting to approximately $632,000 which were assumed by him), and who paid therefor in cash the net amount of $4,038,837. That was for that particular group of assets.

Q. He paid in?—A. To the company.

Q. To the new company?

By Mr. Kennedy (Winnipeg):

Q. In other words, he purchased them back from the company?—A. Right. So, now you have that on the one side.

By Mr. Sommerville:

Q. Or was it that these assets were taken out and that property sold at so much?—A. It would be the same thing.

Q. Was the operation a cash operation, or was it effected in this other way? —A. I wonder if you would let me complete this.

By Mr. Factor:

Q. That is a very important question, did Burns pay to the new company that amount of cash?—A. Exactly as I have said.

Q. Paid in actual cash?—A. Yes. This statement is put together by us, but I am submitting it subject to the approval of the auditor, Mr. Shepherd. Now, you have that body of assets which we dealt with in our efforts to arrive at a valuation of this business.

Q. I cannot get this $4,000.000 figure. Was it in the prospectus? Was that four million dollar figure which you say Burns paid in cash for these assets shown in the prospectus which you filed with the Secretary of State?—A. I think the whole transaction was described completely in the statement in the prospectus.

Q. I have a copy of the prospectus here, but I cannot see anything of any item in here in which Mr. Burns paid cash into the company of $4,038,000. I wish you would point it out to me, have you a copy of the prospectus?—A. Well, sir, might I continue on this particular——

Q. No.

The CHAIRMAN: Well, Mr. White, we want to let you continue; but, frankly, we have our own way of running things; and if there is any pertinent question asked I would rather you tried to answer it. It would be better to get it as we go along.

The WITNESS: Well, as part of this whole transaction which I am reviewing with you in detail, Mr. Burns paid into this company, exactly as I have said, $4,038,837.

By Mr. Factor:

Q. Will you show me in the prospectus where that transaction is set out? —A. I do not think there is any reference to that in the prospectus, sir.

By the Chairman:

Q. Perhaps I do not understand this statement myself; will you make this clear to me, Mr. White: you have here an item described as "certain other assets, consisting of ranch lands, buildings, cattle, town and city property, etc. which were subsequently purchased by Senator Burns, and who paid therefor in cash the net amount of $4,038,837. Do I understand that you include that property in the assets of the company at the time of reorganization?—A. Not in the new company, sir.

By Mr. Sommerville:

Q. You are referring to the old company?—A. Yes.

By the Chairman:

Q. It was part of the assets of the old company?—A. Right, sir.

Q. It is included in that $10,000,000 above there?—A. No, sir.

By Mr. Factor:

Q. Well then, why do you draw this into the picture? It was retained by Mr. Burns. It was part of the assets of the old company, and was not included

in the assets of the new company?—A. Well, my endeavour to date, sir, has been to explain to you the transaction, and all the angles of it, and this is one of them. I am not endeavouring to confuse the situation in the slightest.

Q. No, I am not saying you are?—A. At this moment I am endeavouring to go over with you the steps that we took to try to appraise in our own way the value of Mr. Burns' holdings, which he was desirous of selling.

By the Chairman:

Q. Did you have an appraisal made of these items I have just read?—A. I doubt it, sir. But they were taken over so far as we know, at book values.

By Mr. Sommerville:

Q. Perhaps this may clear it up, in order to make the transaction ready for turning over to the new company——A. Yes?

Q. —$4,038,837 was retained by Mr. Burns through some transaction between him and the old company?—A. Right.

Q. That would leave then, the assets to go into the new company, exclusive of those which were so retained?—A. Right.

Mr. KENNEDY (*Winnipeg*): And the money in their place?

The WITNESS: Exactly.

Mr. FACTOR: No.

The WITNESS: Money in its place.

By Mr. Kennedy (Winnipeg):

Q. How did Mr. Burns pay the $4,000,000, in cash?—A. Sir, in a transaction of this kind, you bring both the old and new company together, and at a certain stage all of those transactions take place, which I am endeavouring now to place before you. You will find later on where I tell you how much money Mr. Burns received, he turns around and passes back to the old company $4,000,000 of the money, and takes back those assets. Is that clear? Now, we had before us that analysis of those assets as outlined there on the left hand side. Now, the old company had at that time, first mortgage bonds of $3,078,500 outstanding, preferred stock, $3,906,200 outstanding. Now, the difference between the two sets the assets and liabilities, applicable to $5,000,000 of common stock, which Mr. Burns held, of those his interest was $12,852,208. That was where we started. That was what you might call the book value of his holding.

Q. Of his holdings?—A. Yes, based on the appraisal.

Q. The new appraisal?—A. Yes.

Q. Would you just comment a little more fully on that last item, the $12,000,000 odd?—A. Well, that is the difference between the analysis of the assets and then liabilities in the hands of the public; so that the balance of the assets accrued to the benefit of the common shares, all of which were held by Mr. Burns, practically all.

By Mr. Sommerville:

Q. Against all those assets there were outstanding securities in mortgages or preferred stock, $6,900,000?—A. Yes, sir.

Q. Against $19,000,000?—A. Yes, leaving a balance of $12,852,000.

Q. Said to be applicable to the common stock holdings in the company?—A. Yes, sir.

Q. Now then, that was the book value of the holdings?—A. And it became our problem to appraise the value of those holdings as expressed in securities which were to be sold to the public, securities of the new company. Now, the negotiations resulted in our buying those assets, the book value $12,800,000, for, as I have said in the last line, $9,671,000.

By Mr. Factor:

Q. Did you actually pay that?—A. Yes.

Q. You made an agreement for the purchase of Burns and Company?—A. Yes.

By Mr. Kennedy (Winnipeg):

Q. When you say "you" do you mean Burns and company?—A. In order to carry out the transaction we undertook to organize a new company to take over the assets of the old company.

By Mr. Factor:

Q. Did Dominion Securities Corporation limited actually agree to purchase the assets of Burns and Company?—A. A part of the procedure, what our real function was, and I will show you later, was to purchase the two blocks of securities which were issued by the new company.

Q. I know that you sent out a letter, I believe, on May 12th, in which you notified the public you purchased the assets of Burns and Company. What I would like to know is, did Dominion Securities Corporation actually purchase Burns and Company?—A. Yes, we acted as the promoter of the new company for the purchasers of the old company. I think, if I remember rightly, the reason we sent that letter out was that the securities then in the hands of the public, bonds and shares, were, as part of this arrangement, to be called. We did not want any client selling them at lower than the price they were going to receive as a result of this transaction.

Q. You did not actually underwrite any of the you actually purchased the business of Burns and Company?—A. Only as a step to complete the transaction.

Q. I understand.—A. I viewed our function in this whole transaction as selling to the public in a new form, Mr. Burns' holdings. That is the essence.

Q. It may not agree with the public's estimate.

Mr. Ilsley: You certainly in the letter write as though you had bought the Burns company.

The Witness: Part of the transaction; we quite admit that.

Mr. Ilsley: When you wrote that letter, you were owners of the Burns company?

The Witness: Owners of the shares.

By Mr. Sommerville:

Q. This is the letter Mr. Factor refers to?—A. That is quite right. We say, "it will be to your advantage to retain your P. Burns and company limited securities, whether bonds or preferred until you receive from us full particulars." That was really the reason behind that letter?

Mr. Ilsley: You had better read the letter.

Mr. Sommerville: The letter was addressed to the shareholders of the old company, and is dated May 12, 1928. It is from the Dominion Securities Corporation and is as follows:—

> We have purchased the business of P. Burns and Company, Limited. There will be a rearrangement of the capital structure, which will necessitate calling for redemption $6\frac{1}{2}$ per cent first mortgage bonds at 104 and accrued interest on the first July next, and formal notice of this call has already appeared in the press. The 7 per cent preferred stock will be redeemed at 105 and accrued dividends, and the notice of call in this connection will appear later. It is our intention to make a public offering

at a later date of the first mortgage bonds and preferred stock. It will be to your advantage to retain your P. Burns and Company, Limited securities, whether bonds or preferred until you receive from us full particulars of the new financing.

Yours very truly,

DOMINION SECURITIES CORPORATION, LTD

(Sgd.) K. M. PRINGLE.

By Mr. Factor:

Q. That letter, would imply that you had purchased the entire business of Burns and Company, all the assets?—A. Through the purchase of common shares.

Q. Including these other assets you have put in here at $4,038,000? —A. What we actually purchased were the common shares of the company.

Q. You merely purchased the common shares of the company?—A. Yes.

Q. It was not an actual purchase of the business of the company?—A. That is the same thing sir.

Q. Was there an agreement made for the purchase of the company?—A. Yes, on that we would be very glad to—

Q. Would you furnish Mr. Sommerville with a copy of the agreement?—A Yes. Now, to continue. As I say, we finally negotiated with Mr. Burns a price of $9,671,000, for shares of a book value of $12,852,000.

By Mr. Kennedy (Peace River):

Q. That was paid to Mr. Burns?—A. Yes, and he in turn used $4,000,000 of that cash, of the $9,000,000 he obtained to purchase those assets, as set out, those assets which I refer to on the left hand side.

Mr. SOMMERVILLE: Speak a little louder so we can hear you.

The WITNESS: Mr. Burns received $9,671,000 of which he used $4,038,000 to purchase those assets which we considered non-essential to the business.

The CHAIRMAN: There was no actual cash passed in the transaction until after the second securities were sold?

The WITNESS: All part of the one clearing, sir, to carry out the transaction—Mr. Lash corrects me, in that Mr. Burns furnished the money, the $4,000,000 prior to the completion of the transaction.

The CHAIRMAN: Come right up beside Mr. White, Mr. Lash.

Mr. J. F. LASH: The transaction was completed by Mr. Burns. He took over all the assets for that money before we sold the shares. It was a stipulation.

The WITNESS: We agreed with Mr. Factor to file the agreement.

By Mr. Kennedy (Peace River):

Q. That is, he furnished the money to pay himself?—A. Furnished the money to purchase from the old company at $4,000,000.

By Mr. Factor:

Q. You mean before the new company sold the mortgage bonds?—A. Right.

Q. And the preferred shares?—A. Right.

By Mr. Kennedy (Winnipeg):

Q. Would it be correct to state the situation about that $4,000,000 in this way, that when arrangements were made for the new company to acquire the old company of P. Burns & Company, including these ranch properties and all that,

at the same time there was an understanding that Mr. Burns himself would repurchase these particular items here for $4,000,000 odd?—A. Yes.

Q. And that was worked out?

Mr. LASH: Not quite accurate. Might I say that the situation was this: An agreement was entered into by Mr. Burns with the Dominion Securities Corporation. One of the terms of that agreement was that there should be purchased by Mr. Burns or by someone, these assets, these buildings, ranch lands and various other things that were of no use in the business, for $4,000,000 odd, before the Dominion Securities became liable to purchase the common shares from Mr. Burns. Mr. Burns furnished the $4,000,000, paid that cash into the old company. The assets were transferred to him, and the statement on the front page must be regarded, so far as what the new company took over, as being $4,000,000 of cash replacing those assets which were purchased by Mr. Burns.

Mr. KENNEDY (*Peace River*): I think that is, as I intimated. It was not an afterthought. The re-purchase of those $4,000,000 of assets was part of the picture from the beginning.

Mr. LASH: Yes.

Mr. SOMMERVILLE: As soon as Mr. P. Burns paid this amount of money, then the liability of the Dominion Securities became absolute and the money was borrowed from the bank and paid to the company.

Mr. LASH: I don't know where Mr. Burns got his money. He paid to the company.

Mr. KENNEDY (*Peace River*): Are we going to adjourn?

The CHAIRMAN: Gentlemen, we have had a pretty tough day.

Mr. KENNEDY (*Peace River*): Yes, I think we have had enough to-day.

The CHAIRMAN: I think we had better adjourn, and we will meet on Monday morning at 11 o'clock.

The commitee adjourned at 6.05 p.m., to meet on Monday, June 4, at 11 a.m.

HOUSE OF COMMONS, ROOM 368,
June 4, 1934.

The Special Select Committee on Price Spreads and Mass Buying met at 11 a.m., the Hon. H. H. Stevens presiding.

Mr. Norman Sommerville, K.C., of Toronto, and Mr. W. W. Parry, of Toronto, appeared as counsel for the committee.

The CHAIRMAN: The minutes of the last meeting indicate the witnesses heard and the exhibits filed. I declare the minutes approved.

Mr. KENNEDY (*Peace River*): Has the report on the investigation into the rubber footwear under the Combines Investigation Act been dealt with?

The CHAIRMAN: No, I do not think that has been officially dealt with yet. There was some indication, I think, of that, but I will make further inquiry to see if the situation has changed.

Mr. ILSLEY: There is a report?

The CHAIRMAN: There is a preliminary report, but it is not filed or published. I will inquire to see what shape it is in.

On Friday evening when we adjourned we were hearing Mr. White of the Dominion Securities.

Arthur F. White recalled.

John F. Lash called and sworn.

By Mr. Sommerville:

Q. Now Mr. White, we had I think, reached the close of sheet 1 of your memorandum *re* Burns and Company, Limited, down to the point where according to your memorandum, the assets that stand behind those shares were assets valued as above indicated at $12,852,208?—A. Meaning, sir, that on the basis of the appraisal we had paid Mr. Burns $3,181,000 less than the book value of the assets.

Q. On the basis of the appraisal, Mr. Burns was paid $3,181,000— —A. He was paid $3,181,000 less—

Q. —less than the book value of the assets?—A. Of all of the assets.

Q. That would mean what?—A. Will you have just one more look at that. The net liquids of course we paid dollar for dollar.

Q. You paid dollar for dollar for the net liquid assets?—A. $4,366,339. Investments at their accrued value $586,000, consisting largely of advances to their subsidiary companies.

Q. Was that the amount on which they were carried on the books of the old company?—A. Offhand, I would think so, sir. The amount is not there, but it is the net amount after Mr. Burns paid in cash the $4,038,000.

Q. The $4,000,000 odd?—A. That was already there in the form of cash.

Q. That was cash that Mr. Burns paid in for those assets?—A. Yes.

Q. $10,845,464 were fixed assets?—A. Right.

Q. That value of $10,845,464 was the value after the new appraisal by the Canadian Appraisal Company?—A. Yes.

Q. Those assets were formerly carried proportionately on the books of the old company at $5,984,856; that is right?—A. That is right, the difference between the two.

Q. To that was added the increased value given by the appraisal company of $4,860,608?—A. $10,845,000.

Q. Making $10,845,000, which was the appraisal company's value?

By Mr. Ilsley:

Q. Let me ask a question or two about that. You take a company like the Canadian Appraisal Company, what sort of certificate or appraisal did they sign; is that here?—A. We can very easily get it sir.

By the Chairman:

Q. Of course, the weakness in that appraisal, I think—correct me if I am wrong in this suggestion—the weakness of that appraisal is its replacement value new.—A. Yes?

Q. Do you consider that a very sound method?—A. Well sir, in setting out to appraise the value of a going concern, would you not agree with me the first thing you must do in the absence of anything of that nature is you must get an appraisal. You may decide to pay more, or you may decide to pay less.

Q. I agree with you.—A. At any rate, we had to have something. Now, they are reputable people; they gave us this appraisal, and that was one of the main considerations in the transaction. It established the value of the business, with nothing to the contrary at that time.

By Mr. Ilsley:

Q. Did you tell them to make their appraisal on the replacement value new; were those your instructions?—A. Yes.

Q. What sort of a certificate did they sign; did they agree with you as to principle?

Mr. LASH: May I read it?

Mr. ILSLEY: Yes, please.

Mr. LASH:

CANADIAN APPRAISAL COMPANY LIMITED

Head Office,
1260 University Street,
Montreal.

The Canadian Appraisal company, Limited, a corporation organized, created and existing under and by virtue of the laws of the Dominion of Canada, with its Head Office in the City of Montreal, in the province of Quebec, by its duly authorized officer, hereby certifies that it has caused an appraisal to be made of Packing Houses, Creameries, Retail and General Properties and Sundries, properties of

P. BURNS & CO. LIMITED, CALGARY, ALTA.

as in evidenced by a certain appraisal invoice. That the *Replacement Value New* of such properties as of December 31st, 1927, is eleven million, seventy-five thousand, three hundred and seventy-four and 14/100 dollars ($11,075,374.14)—consisting of—

Packing Houses	$ 8,296,595 10
Creameries	973,779 35
Retail and General Properties	1,785,205 99
Sundries	19,793 70
	$11,075,374 14

which figures represent a true and correct appraisal of said properties to going concerns on said date and according to its best knowledge and belief.

Q. What is that again?

Mr. LASH:

> Which figures represent a true and correct appraisal of said properties to going concerns on said date and according to its best knowledge and behalf.

Mr. ILSLEY: What does he mean by that? They start out by saying "replacement value new."

Mr. LASH:

> Which figures represent a true and correct appraisal of said properties to going concerns on said date and according to its best knowledge and belief.

The CHAIRMAN: As if new.

Mr. LASH: As if new.

By Mr. Sommerville:

Q. The value of those premises to a going concern was the same as if it was absolutely new throughout.

Mr. LASH: That is the implication.

Mr. SOMMERVILLE: That is the statement.

Mr. LASH: That is the statement.

Mr. HEAPS: What is the date?

Mr. LASH: March 24, 1928.

Mr. KENNEDY (Peace River): Some of those buildings were put up as far back as 1909?

Mr. EDWARDS: That would hardly be a correct statement.

The WITNESS: May I go a little further; the auditors said they would like to have a further survey from the appraisal company, giving their estimate as to depreciation. The new company through the Dominion Securities made the best estimate it could as to what should be allowed off this from the point of view of getting down to taking care of obsolete things and so on. There was set up a general reserve available for depreciation in the new company, amounting to $1,700,000 odd. The extraordinary thing is that the appraisal company, when asked by the auditors for their estimate as to what was the proper depreciation to allow, was within $137,000 of the same figure that was set up by the board of directors of the new company; their estimate was $1,800,000 odd.

By Mr. Kennedy (Peace River):

Q. What was the reserve before that?—A. $1,700,000 odd was set up by the board of directors of the new company as being the proper thing to take off, and the appraisal company came within 5 per cent of their estimate.

By Mr. Ilsley:

Q. The figures you gave add to $11,000,000 something?—A. $11,075,374.

Q. Then, some deduction was made to bring it down to $10,845,000?—A. I think that deduction was to purchase many mortgages, the net amount. This was appraised without showing charges against it. There were some outstanding mortgages.

Q. Yes?—A. So it brought it down to the $10,000,000.

Q. $10,845,000?—A. That is the net figure.

Q. That is the replacement value new of the property?—A. Yes.

Q. When this value was given as a going concern?—A. On said date, on March 24, 1928.

Q. Does not that imply as Mr. Kennedy and others have said, that an old plant is just as good as a new plant?—A. Yes.

Q. To a going concern?—A. Yes.

Q. Is that so, as a matter of common sense?—A. After all, the properties had been well maintained. Senator Burns operated them very efficiently and had kept them well maintained, on my understanding, all the way through.

By Mr. Kennedy (Peace River):

Q. Does it imply during the 20 years that some of those buildings were up, that there was no progress in the improvement of buildings in connection with the packing industry?—A. It is such a simple layout, the packing industry, anyway. The main thing is really, the machinery for carrying carcasses and that sort of thing; the rest of it is a lot of vats.

Q. Were there reserves written off to take care of increase in appraisal value? —A. I am afraid I do not get your point.

Q. There is a certain amount of reserves set aside each year to take care of—

The CHAIRMAN: Mr. Kennedy has referred to the old company before the refinancing occurred.

Mr. KENNEDY (*Peace River*): When you added the value or increased the appraisal value, were their additional reserves set up to take care of them?

Mr. LASH: The new company set up $1,700,000 odd as reserve against $10,845,000.

Mr. SOMMERVILLE: Mr. Lash, you were sworn with a view to assisting Mr. White. Mr. White, was it not a fact that in the old company against those assets at their then value, the former value, there was already set up reserves of $1,660,-000?

The WITNESS: That must be available on the records; I am not familiar with it.

The CHAIRMAN: What date is that balance sheet?

By Mr. Sommerville:

Q. On the balance sheet of December 31, 1927, the fixed assets are shown at $9,865,177.36 less depreciation of $3,177,767.93, or a net figure of fixed assets of $6,687,409.43; then out of those assets $4,000,000 were taken, approximately, by Mr. Burns leaving $5,000,000 of assets and these $5,000,000 odd were written off the $10,000,000 as replacement value new; but what was done with the former allowance for depreciation which amounted in the old company to $3,177,000?—A. Well, at some point, Mr. Sommerville, you disregard the old company and its books. This is a new company started up with those valuations, as I have set out; nothing happened there for depreciation.

By the Chairman:

Q. You see Mr. White, our difficulty, if I might state it, and I think it is my duty to reflect the problem before this committee, is this: we are dealing with the question of price spreads and the cost of doing business, whether those costs in different lines of activity are fair, and we are specially instructed by parliament, in a general discussion that preceded our appointment, to keep in mind the capital structure of various organizations that are doing a large proportion of the business of the country and particularly so in connection with livestock industry. Now, the question that naturally intrudes itself upon one's mind is this: In view of what has occurred in connection with P. Burns and Company, was the new capital structure a fair set up, so as to continue an efficient organization—nobody questions the efficiency of the old P. Burns and Company, I do not think so, at least —was the new organization fairly capitalized to continue an efficient packing

organization such as had previously existed, so that the public on the one hand, and the grower and the producer on the other, could receive a fair deal in connection with the business done by that particular company. Consequently I find myself, and I presume from the questions that have been asked by several members of the committee, that they are in the same position, a little puzzled to justify an appraisal on a new basis of $10,800,000 less an arbitrary set up depreciation account of $1,600,000 in the face of the book value of the assets, less the depreciation set up over a period of years, amounting to about $5,500,000, or under $6,000,000. We find, naturally, at least I do, and I think from the questions asked by some members of the committee, that they are in the same position, we find it a little difficult to reconcile these two situations.—A. Well, sir, does it not really all arise from what we considered the value of the business in 1928? That, unquestionably, as compared with 1932, was too high.

Q. You asked me a question upon which I had not contemplated offering an opinion, but from the very numerous letters we have received, we find that very fact is called into question, the set-up that you represented in the new organization, presented to the public, is called into question. I am not now calling it into question, but you put the question to me and I am answering it in that way.

By Mr. Heaps:

Q. May I ask how they appraise the value of a business?—A. Well, sir, there are so many factors entering into it. The first thing we did was to get an appraisal of the fixed assets. There was nothing of that nature in existence. Then comes the long record of the company, and how we viewed its future in the light of its past, the management, and its location. All these things enter into it, and as we reviewed the value of the old company and its assets as set out here in this memorandum, we felt that we were paying a fair price for that business when we paid Burns $3,180,000 less than the statements outlined on those appraisals.

Q. May I ask this further question: In creating new capital structure for a company, is not the primary factor that is taken into consideration. Its earning capacity more than anything else?—A. Oh, earnings, in my humble judgment are the greatest factors.

Q. Then the physicial value is not an important factor?—A. I would almost go so far as to say I would disregard it in valuing the securities to be set up against a company that has a long record—

Q. Your new capital structure then would be created more with a view of its future earning capacity than anything else?—A. The future, plus a very careful study of its past record.

Q. The earning capacity would be the important factor?—A. In my judgment.

Mr. Ilsley: You might be right about that. Perhaps you do not pay too much attention to that. Is it not palpably ridiculous for an appraisal company to say an old plant is as good as a new plant for purposes of a going concern?

Mr. Sommerville: When selling to the public.

The Witness: I am sorry I can't give you specific instances. I can get them. But there are several of companies in existence a long time, where their properties had actually been fully depreciated; where on a purchase by a new group they were established at the then value of the buildings and equipment.

Mr. Kennedy (*Peace River*): You can't give them, you say.

By Mr. Sommerville:

Q. They were established at the then value. The objection here is that they were carried on the books of the company, the old company, at the then value; but in the revaluation that was made for the purpose of carrying this transaction

through, they were valued at replacements value new, which is quite a different proposition. As a matter of fact, Mr. White, I think you have already stated that the appraisal company made the valuation on the basis of new buildings on instructions from Dominion Securities?—A. Yes.

Q. So that they were not just sent in with a free hand to appraise at whatever they thought was a fair value?—A. You are getting rather far afield, are you not? You are not suggesting for a moment that we sent the appraisal company in with instructions to give it a value?

Q. No, I don't think so?—A. I prefer you to question them rather than me on that.

Mr. LASH: May I interject?

By Mr. Ilsley:

Q. You said you told them to give it at replacement new?—A. Yes.

Mr. LASH: The agreement with Mr. Burns was that unless Canadian Appraisal Company showed an appraisal of the company's assets at replacement value new, of at least $10,500,000, there was no deal. Their appraisal, when it came through, was $10,800,000.

Mr. KENNEDY (*Peace River*): Is the committee going to get the agreement?

Mr. SOMMERVILLE: Yes, it is to be forwarded to us. It is in the form of letters.

By Mr. Kennedy (Peace River):

Q. With regard to that question of reserve account, I note in the report of the committee at page 2394, dealing with the question of the write-up, "to this amount was added an appreciation in value of the assets as shown by the appraisal, amounting to $6,577,000 odd less general reserve available for depreciation $1,592,000 odd." This was the actual reserve in existence, was it?—A. In the old company.

Q. Was it in addition to this you say that a reserve was set up totalling $1,000,000 and something when the bonds were written up?

Mr. SOMMERVILLE: No.

Mr. LASH: No, because in the new company valuation which had to be determined for it, they set up a reserve against that.

By Mr. Kennedy (Winnipeg):

Q. Mr. White, when the new company was organized and the securities offered to the public, would it be fair to state from the public's point of view, they had in their minds, in buying the stock, the high standing and good name that P. Burns & Company had so long enjoyed?—A. That would be a factor.

Q. Would it not be a very important factor?—A. Probably.

Q. I have no interest one way or another. You say "probably." In view of what you said about looking carefully into the past of the company and its records, it seems to me it would have?—A. All I can say is we felt that—we have been associated with this company for over twenty years. We have done all their financing. They have been highly successful. We had every faith in the Burns' situation.

Q. From your experience, that is a tremendously important factor so far as the public is concerned?—A. I would think so.

Q. The general reputation for probity and honesty of dealing and the goodwill it has throughout the country?—A. Yes.

By Mr. Edwards:

Q. It is important, having regard to the possibility of carrying on a profitable business?—A. Yes.

Q. Under the new management?—A. Yes.

Mr. Kennedy (*Winnipeg*): I have in mind other concerns which enjoyed a similarly high reputation, and when reorganized their stock sold to the public; while their old reputation may have been such, the securities did not show it.

The Chairman: Have you a copy of the prospectus that was issued?

Mr. Lash: What do you refer to?

The Chairman: When the issue was made?

Mr. Sommerville: The issue of the new company.

Mr. Lash: You mean the bonds and preferred stock of the new company?

Mr. Sommerville: Yes.

Mr. Lash: These were all bought by the Dominion Securities Corporation, which subscribed for the total amount of bonds and total amount of preferred stock. Then, at a subsequent date, they made an offering to sell those to the public, so that it does not affect the capital structure in any way, I do not think. The capital structure was set out here and all issued to the Dominion Securities Corporation. At a subsequent date they sold to various people.

The Chairman: It was sold to the public. I would like to see the prospectus that was issued to the public when the securities were sold to the public.

The Witness: Many are available. I have just these two here.

Mr. Sommerville: This is the preferred shares. Have you one on the bonds?

The Witness: It is bound in that file. I will get it out. Would you like to read from that now?

Mr. Sommerville: Yes.

By Mr. Kennedy (Peace River):

Q. Mr. White, have you got a statement of the amount the assets were written up? Was there any goodwill?—A. Why do you say "written up"? It was a case of buyer and seller coming together.

Q. All right, depreciation, is it?

Mr. Sommerville: Appreciation.

By Mr. Kennedy (Peace River):

Q. In which there was appreciation in value. I suppose "written up" would be a fair explanation of the transaction? They must have been?—A. Except that that implies that we wrote it up without any foundation. That is the only part I don't like.

Q. If you could just explain that?—A. In the memorandum which I submitted on Friday we stated very completely the difference between the two values.

Q. Was there any question of goodwill there?—A. No.

Q. No goodwill at all?—A. No, sir.

Q. This was an appraisal of the various packing plants taken over, and creameries?—A. Creameries and packing plants. We treated them as if it were a straight deal between buyer and seller. I think a very simple illustration is if I have a house and it stands on my books at $25,000 in 1928, I think I would be very unlikely to have sold it for its bare cost or what it stood at on my books.

Q. When these bonds and so on were offered to the public, was it made plain to them that certain assets had been taken out of the company; that ranch lands, for instance, would be taken out?—A. We referred to that in the circular. We gave the value of the assets.

Q. That is the memorandum?—A. This is the circular. Oh, yes. Shall I read it?

Q. Yes?—A. "These bonds and the preferred stock presently to be outstanding are to be issued to finance the acquisition by the new company of the assets (except certain extraneous assets) and undertaking of the predecessor company, and for general corporate purposes." Mr. Burns had treated this company as his own. It was almost a private company. He had office buildings; he had investments in oil companies; he had his ranch lands, cattle and so on, all of which were, in our opinion—the opinion of the management—not essential to this business. So we said to him as a condition of this transaction, "Take those out and replace them by cash."

Q. And that is the reference to it in your prospectus?—A. Right.

Q. What about the balance sheet of December, 1927? Was that ever shown or published in connection with the advertisements?—A. Well, it is always a problem with us how much you should put in a prospectus, as to the size of the thing itself. We boil it down as much as we can, and still we come out with four pages. We state here, "A copy of the appraisal statement of the Canadian Appraisal Company, and a copy of the audited statement of earnings and balance sheet of the company may be seen at the offices of this corporation in Toronto and Montreal." We spread on the prospectus what we believe are all the essential facts.

Q. But you didn't put the balance sheet of 1927 on?—A. We put no balance sheets on. I don't think it has been a practice to put balance sheets on. We would be very glad to do it.

Q. Do you think it was a reasonable thing that you should have, in fact, to go to Toronto or Montreal to see this, and you are offering this stock all the way from Vancouver to Halifax?—A. Well, if you put it that way, perhaps not. But you must bear in mind that that is the way we have conducted business for thirty-five years. We are willing, at all times, to go into any phase of it. We were never asked those things at the time of issue, unfortunately.

By Mr. Ilsley:

Q. I have two or three thoughts on this, and I certainly don't pretend to know much about these prospectuses or capital structures. You sold the securities to the public in the new company on the basis of the fixed assets of the old company being worth $10,845,465,, didn't you?—A. In that regard we state: "The assets of the company as at December 31, 1927, after giving effect to present financing would have been substantially as follows: Fixed assets, consisting of plant, machinery and equipment at replacement value new, appraised by the Canadian Appraisal Company as at December 31, 1937, less purchase money mortgages, $10,845,464.

Q. Did you say anything further than that the replacement value new was $10,845,464?—A. I have read you just what we wrote.

Q. I know; but I thought I saw in something around the table here that you went further, and you said that was the best basis that could be obtained for getting the present value. Was there not something like that in one of these? Yes, this is what I saw. This is a communication from the Dominion Securities Corporation, Limited, to the preferred shareholders of Burns & Company, Limited, dated March 3, 1934.

Mr. Lash: Just a couple of months ago.

Mr. Ilsley: Yes.

By Mr. Ilsley:

Q. It reads: "First, asset position; that the fixed assets acquired by the new company, consisting of real estate, plant, machinery and equipment, were shown at their replacement value (new) without indicating an allowance for

depreciation. The replacement value new was used as giving the fairest test of the value of the property, and we would point out that the balance sheet upon which the new company acquired the business of the old company showed a general reserve available for depreciation, etc., of $1,723,078. This reserve also appears in the subsequent balance sheet of the new company, so that this discloses the net asset position as shown by the company's books." Now, my question was whether, in offering the shares to the public—not in 1934, of course, but the time when the new company was incorporated—you represented that $10,845,464 as being a fair value on the fixed assets of the company?—A. Well, sir, our representation is as I read it. It is all that was issued. This is the prospectus.

Q. That would convey the impression, would it, that that was a fair value of the fixed assets? Perhaps you can't answer that?—A. We would stand by the statement we made.

Q. All it says is that it was the replacement value new?—A. Right.

Q. Did you, anywhere in your prospectus literature or circular, say that the assets stood on the books of the old company, at $4,860,608?—A. No.

Q. Whether leaving that out was technically or legally correct, was this not morally and in essence something that you should have communicated to the purchasers of these securities, the fact that the assets to which you are attaching a figure of $10,845,000 stood on the books of the old company at $4,860,000? What do you think of that?—A. It is so hard now to say what you should have done in 1928.

Q. I can understand that, but what I don't understand is this: How in the world has the replacement value new of the assets any relation at all to the real value of those assets?—A. Well, sir, would you mind telling me what you would have valued that plant at?

Q. I would not mind, if I could. But certainly I could not have told you that?—A. How would you have gone about it, then?

Q. I would suggest—not knowing much about these things—if you were going upon a physical valuation, I should certainly have taken the value now, less depreciation. I should think that was sensible. If you were taking it on the earning basis, I would not have had appearing in it at all physical value new or replacement value. Why in the world don't you go on one principle or the other. You take the most favourable figure, the replacement value new for the old plant, which had no relation whatever to its value then as is shown by the fact that it was carried on the books at $4,860,000?—A. It is so easy now to say what one should have done in 1928. I know of nothing, sir, which can change the practice of bringing buyer and seller together at any given time and have them deal with respect to the conditions which exist at that particular time. It is happening every hour of every day. While I would like to do anything I can to assist in improving conditions, I have been brought up in a hard school. In 35 years experience I have never found that you can bring buyer and seller together, and have them deal in any other way than the conditions which happen to exist then; not what they were ten years ago, or what anybody thinks they may be ten years from then.

Q. This was not a question of buyer and seller?—A. Certainly it was.

Q. It is a question of the public. You were just serving as an intermediary?—A. I admit that.

Q. You were not in the position of a seller who had to take his medicine if he paid too much?—A. That is right.

Q. You were passing the whole thing on to the unsuspecting public. You put a figure down that anyone would think was the value of the assets; and you put down $10,845,000 for assets which you knew were carried on the books of the company at $4,860,000? Was that right?—A. Carried on the books of the old company had nothing whatever to do with it.

Q. What had something to do with it? Replacement value new had nothing to do with it; otherwise you come to this ridiculous position, that the old plant is just as good as a new plant, which is not sensible. Is that not right?

By Mr. Kennedy (Peace River):

Q. Would you say that was a common practice or that it had been done? I understood you to make some statement a while ago, with regard to replacement value new, to the effect that there were several other companies that had followed the same practice?—A. No. What I said then, sir, was that the depreciation reserve set up at any one time in any company's books is not necessarily part of the basis upon which any one should go in and buy those assets.

Q. Is this the only case on record, so far as you know, where that principle is applied, of appraisal value new?

Mr. Ilsley: Replacement value.

By Mr. Kennedy (Peace River):

Q. Yes, replacement value new?—A. All kinds of methods are employed in valuing assets.

Q. Is this the only case where that method was used?—A. I would not be in a position to answer that question.

By Mr. Ilsley:

Q. What about your own practice?—A. Have you done this thing with other companies, put in replacement value new as the value on your prospectuses?—A. I don't know whether we followed that practice or not.

Q. Can you think of a single other instance where you followed that?—A. I can't say offhand.

By Mr. Senn:

Q. Mr. White, you made a statement to Mr. Heaps a short time ago that the earning capacity of a concern should largely determine the value?—A. Yes, sir.

Q. What relationship exists between the replacement value new of this company and the earning capacity of the company at the time it was taken over?—A. It had no bearing whatever on the earning power. It didn't change in any way.

Q. Was the replacement value new a fair reflection of the earning power of the company at that time?—A. The two factors are totally different.

By Mr. Heaps:

Q. Would it show the profits on the basis of the valuation that was put on the concern?—A. No, they are quite different.

Q. Well, would it have shown the profits?—A. No.

Mr. Kennedy (*Winnipeg*): Of course they are different.

The Witness: Oh, I am sorry, I didn't quite get your question, Mr. Heaps.

By Mr. Heaps:

Q. What I meant was this: On the basis of your valuation, which was over $10,000,000, and on the earning capacity of 1927, would it have shown a profit on that valuation?—A. Yes, sir.

By Mr. Senn:

Q. In other words, it would pay dividends on that valuation?—A. Yes, it did.

By Mr. Heaps:

Q. May I go a little further: Was not the earning capacity the main factor determining the capital structure?—A. Right.

Q. That was the usual custom in the year 1927 up to 1930?—A. Yes. We set out here the earnings for the $4\frac{1}{2}$ years prior to the date of the financing.

Q. And it would have shown the profits on the basis of that?—A. Right.

Mr. KENNEDY (*Winnipeg*): I suggested that, instead of speculating as to the relationship, we should get spread on the record just what the earning of P. Burns & Company were before this sale to the public.

The CHAIRMAN: Yes, I was just going to ask him that question, Mr. Kennedy.

By the Chairman:

Q. Mr. White, I have before me a prospectus of the Dominion Securities Corporation, dated May 16, 1928, offering $6,900,000 of shares of cumulative preferred shares of P. Burns & Company. May I ask if these were fully taken up by the public?—A. Yes.

Q. It was all absorbed by the public?—A. Yes.

Mr. SOMMERVILLE: The bond issue was all absorbed.

By the Chairman:

Q. And the bond issue which preceded it was absorbed?—A. Was sold.

Q. It preceded this?—A. Bear in mind we are dealing with these things all the time. We happen to be the largest holder of the preferred shares ourselves at the present time, but at that precise moment they were sold.

Q. Yes, they were sold. Let me follow this financial set up as it appears on your prospectus?

Mr. KENNEDY (*Winnipeg*): Is that dated?

The CHAIRMAN: It is dated May 16, 1928.

Mr. HEAPS: What was the value of the shares?

The CHAIRMAN: The issue was $6,900,000.

Mr. HEAPS: Dollars?

The CHAIRMAN: $100 par value and accrued dividends, to yield 6 per cent.

By the Chairman:

Q. In the first place, you show these assets, about which we have had considerable discussion, on a new appraisal basis of $10,800,000, to give the round figure; liquid assets of $4,300,000, and investments in shares and securities of and advances to other companies of $586,000 or a total of $15,723,000. To put it in round figures, you took from that $7,000,000 for mortgage bonds. That leaves the assets at $8,700,000. That is correct, is it not?—A. Yes.

Q. Which $8,700,000 of assets for the security of these preference shares includes the valuation above referred to of $10,800,000 that is fixed assets. Now, the next paragraph shows the earnings of the company available for preferred stock dividends and depreciation. In other words, the earnings I am now about to refer to are before depreciation?—A. Yes.

Q. That is true, is it not?—A. Yes.

Q. Then the average earnings for four years and six months ending December 31, 1927, are $576,000 per annum?—A. Where is that figure, sir?

Q. On your prospectus here?—A. I am sorry, I have the bond one and you have the preferred stock one.

Q. The average annual earnings for four years and six months, ending December 31, 1927, before depreciation, was $576,000. That $576,000 then would indicate all that was available to pay interest on the $8,723,000 and to provide depreciation, is that right?—A. Yes.

Mr. LASH: No, it was not. I think that was after bond interest.

The CHAIRMAN: I know, but I have eliminated that.

The WITNESS: You have taken bond interest out.

The CHAIRMAN: I have eliminated bonds. The bonds are taken out of the $15,000,000. The amount left is $8,723,000; so that this $576,000 was available for depreciation and interest on $8,723,000.

Mr. LASH: I can't quite get that figure, because $7,000,000 of bonds, and $6,900,000 of preferred stock makes $13,900,000.

The CHAIRMAN: What is that?

Mr. LASH: I can't get that figure. The par value of the bonds was $7,000,000. The par value of the preferred stock was $6,900,000. That makes only $13,900,000 between them.

The WITNESS: That is right.

The CHAIRMAN: The bond interest is to pay interest on $6,900,000. You are right. I was speaking of the assets. $8,700,000 is the assets.

By Mr. Ilsley:

Q. How much did your company make out of this floatation and reorganization?

Mr. SOMMERVILLE: Mr. Ilsley, we will come to that shortly.

By the Chairman:

Q. Well now, what I am coming at in this is, out of these average earnings of $576,000 there was $414,000 to pay interest on the $6,900,000 preference stocks? —A. Dividends, sir.

Q. Which would leave you $162,000 for your complete depreciation and reserve charges?—A. Yes.

Q. Is that correct, that out of the average earnings for four years it called for a provision of $414,000 to pay interest on the preferred stock, is that right? —A. That is right, sir.

Q. And that would leave on the past history of the company $162,000 to take care of all your reserve and depreciation?—A. Right.

By Mr. Sommerville:

Q. And in the previous year, 1927, the old company charged depreciation on its assets of $343,953.78.

Mr. LASH: That is right.

The WITNESS: And in the year before $286,191.74.

By Mr. Sommerville:

Q. The year before $286,191.74.

Mr. LASH: Yes.

By Mr. Sommerville:

Q. That is, on valuations of $4,000,000 less than the new valuations?—A. Right.

Mr. LASH: There is a further explanation that should come there. In the $4,000,000 of assets which were taken over by Mr. Burns were included a large

number of depreciable assets against a considerable portion of which depreciation should be charged and was not all charged against the assets that were taken over by the new company.

By the Chairman:

Q. Now let me ask Mr. White this question: As—shall I say the promoter of this proposal—would you consider in the light of these figures, first, of the valuation of the property, the book reserve set up after depreciation, and the amount of depreciation actually provided for in previous years, that the amount of $162,000 was ample for depreciation reserve and would justify the issue of such a large amount of preferred stock to the public in that corporation, and especially on a valuation on a new replacement basis?—A. Not if you put it that way, sir, but the earnings were improving. The earnings in December, 1927, were $1,065,000—

Q. You say the earnings in 1927 were what?—A. I am reading from our prospectuses. I have the bond one and you have the preferred one.

Q. I am assuming that the bonds were all issued?—A. Yes.

Q. And I am analysing what is left for the preferred stockholders in this prospectus.—A. We are reading from two different prospectuses, but the earnings for 1927 were $1,065,000.

Q. The language used here is, " earnings for the year ending December 31, 1927, $646,660."

Mr. Lash: After bond interest charged.

The Chairman: Well, in the paragraph above it refers to this succeeding paragraph as " available for preferred stock dividends and depreciation."—A. Right, but after bond interest.

Mr. Lash: Bond interest is already taken out.

The Witness: I am reading, sir, from the bond circular which has the first claim on the interest.

By Mr. Sommerville:

Q. It may have been included in these assets after providing for the new financing.—A. That is right. The gross earnings in 1927 available for bond interest, depreciation and profits taxes, after giving effect to the present financing, were as follows:—

Average annual earnings for the 4 years ended December 31, 1927	$ 991,558
Earnings for the year ended December 31, 1927.	1,065,618

Q. Gross?—A. Gross. Now, that was sufficient to pay all these charges. Depreciation in 1927 was charged by the old company; that was $341,000.

By the Chairman:

Q. What was the interest rate on your bonds?—A. 5½ per cent. Then in 1929 we charged depreciation $281,000, and in both these years we had ample earnings to take care of these charges.

Q. Well, take the year that you mention—1927—with earnings of $1,000,000, you have not got there interest on bond interest of preferred stock and not more than half enough to provide the depreciation as provided in the previous year?—A. Are you sure you are right on that?

Q. I think so.—A. I have not got the figures here before me.

By Mr. Sommerville:

Q. Take 1927, the earnings in themselves would not have been sufficient to provide for $385,000 of interest on the new bonds and $414,000 of dividends

on the new preference shares, making a total of $799,000 and also provide for depreciation upon the $10,000,000 of fixed assets at which the assets were appraised as new?—A. It leaves $266,000 from your own figures.

Q. It leaves $266,000?—A. Yes.

Q. And $266,000 you think is sufficient depreciation allowance upon assets which are taken over at appraisal value new and which, in taking them over, are increased in value by 80 per cent on that basis?—A. 80 per cent I do not agree with at all.

Q. Well, let us clear that up then. They were written up from, or revalued from $5,980.000 to $10,845,000, and that is an increase of $4,860,000 on a previous valuation of $5,980,000, or 80 per cent.—A. All right then, if that is 80 per cent.

Q. Well, $4,800,000 on $6,000,000 would be 80 per cent?—A. Right.

Q. And it is only $16,000 short of $6,000,000?—A. Yes.

Q. Do you think then that is a sufficient depreciation—$260,000—to set up on fixed assets of $10,000,000 which had been taken at appraisement value new, and which had in the operation been increased by 80 per cent over the previous value of these same assets in the old company?—A. In the first place, the rates of appraisal are set out in the information tabled with you by the auditors last Thursday. It seemed to me to be adequate. On top of that there has been spent from $125,000 to $150,000 a year. Now, there is very little in a packing plant that is rapidly depreciable. There is no intricate equipment at all to speak of.

Q. We have had the evidence to the contrary from packing plant after packing plant, and we had one big plant alone that was spending $450,000 on the average every year in repairs and they say that was the amount that was necessary because of the rapid depreciation.—A. I heard you say yourself that you thought it was a bit high.

Q. I agree with you.—A. But seriously, sir, it is nearly all buildings, vats and so forth. It is not like a textile mill or a paper mill where you have a lot of intricate machinery.

By the Chairman:

Q. You are not arguing for a very considerable amount on repairs and replacements?—A. Sir, I would say that the most serious problem to consider, if you are approaching a question of this kind, is not so much depreciation, but the thing that we all have to guard against—you would not necessarily call it obsolescence, but we have right in Toronto a plant—as a matter of fact it is the William Davies Company plant—completely shut up; that is the thing we have to fear or guard against more than anything else, a change in conditions which would make a plant less valuable than it was before.

Q. I agree with you in that, but Mr. White, in this set-up you have here you have apparently given no consideration to that, and I entirely agree with your analysis.—A. On the other hand, this plant has been there for over forty years, or the Burns plant has been in existence for over forty years, and we have to guard against any change in conditions which would make that plant less valuable than it is now.

By Mr. Sommerville:

Q. Mr. White, following this just a little further, the auditor's report at page 2394 of the evidence indicates that the old financing of P. Burns Company, the funded debt on preference stock was as follows:—

> First mortgage $6\frac{1}{2}$ per cent bonds of $3,078,500 outstanding with an annual interest charge of $200,102.50; and 7 per cent cumulative preference shares outstanding amounting to $3,906,200 with an annual interest charge of $273,434, or a total of fixed charges for bond indebtedness and

preference shares of $473,536.50; those were the annual fixed charges, and the total amount sold of common stock was $6,984,000.

—A. How much?

Q. $6,984,000. Now, under the new financing these assets which were reduced by $4,000,000 taken out by Mr. Burns in actual quantity are the first mortgage $5\frac{1}{2}$ per cent bond issue of $7,000,000 and a 6 per cent cumulative preference shares of $6,900,000, or total obligations against them of $13,900,000 against $6,900,000, an increase of practically $7,000,000 in securities against them.—A. May I interrupt not $7,000,000 of securities against them; you cannot ignore the old company's stock.

Q. No. Perhaps I should say senior securities?—A. Right.

Q. The fixed charges then which the new company would bear would be on its First Mortgage $5\frac{1}{2}$ per cent bonds, $385,000 a year, that is correct?—A. Correct.

Q. And on its 6 per cent cumulative preference shares, $414,000 a year, or a total fixed charge— —A. Not a charge, if I may interrupt. I know what you are driving at though.

Q. A total obligation?—A. Correct.

Q. Of $799,000.

By the Chairman:

Q. When they are cumulative preference shares why do you say it is not a charge?—A. It is an obligation, it is not a charge. I mean as compared to bond interest.

Q. I know, but it is a pretty narrow interpretation of what is a charge. It is cumulative and it stands there as a charge.

Mr. LASH: Only against the common shareholders.

The CHAIRMAN: Quite so, and against the bonds.

Mr. LASH: No.

Mr. SOMMERVILLE: No, out of the earnings; it must come out of earnings.

The CHAIRMAN: In the case of depreciation.

Mr. LASH: Only as against the common shareholders, so it is not a charge.

Mr. SOMMERVILLE: Legally that is so.

By Mr. Sommerville:

Q. So that the increased amount to be paid by the company on its bond and preference shares by the refinancing was $125,463.50?—A. If you compare the two in that way.

Q. Well, that is the way in which they are returned to us by the auditor.

By Mr. Kennedy (Peace River):

Q. Is there anything wrong with that comparison?—A. In connection with the earnings of the old company, the surplus earnings accrued to Mr. Burns' holdings of common stock.

Mr. SOMMERVILLE: And in this case the surplus earnings of the new company would accrue to the holders of the common stock.

Mr. LASH: And the preferred.

The WITNESS: First to the preferred.

Mr. LASH: First to the preferred and then to the common.

Mr. SOMMERVILLE: It was the same in the old, first to the preferred and then to the common?

Mr. Lash: You take some from the common and give it to the preferred in the new set-up, that is the only difference.

By Mr. Sommerville:

Q. And you were the holders of the common shares, all the common shares?—A. About 60 per cent.

Q. I mean you got them all?—A. At the outset.

Q. Then the auditor who is examining reporting to the committee adds this paragraph, and I should like to have your comment on it:—

> The increased value placed upon the fixed assets in the books of the new company would naturally involve an increase in the annual provision for depreciation, thus increasing the fixed charges. Owing to the fact that lower annual rates of depreciation have been used by the new company than were adopted by the old company, this expected increase has not been reflected in the annual financial statements of Messrs. Burns & Company.

A. What is the date of that?

Q. That is the auditors report.—A. You mean just recently?

Q. Made for the committee on May 23rd by Eric Richardson & Graves of Calgary. What observation have you to make to the committee, if any, on that?—A. My observation is that for the first two years after the new financing the earnings were satisfactory and adequate. Following that they suffered in common with all other companies.

Q. Yes. You say they were satisfactory and they did pay the bonds and the preferred?—A. Yes.

Q. But the point the auditor makes is, that if you had charged the same rates of depreciation as the old company had then there would not have been sufficient to pay the preferred shares.—A. That is his opinion on depreciation. I have never known any two men to agree yet on depreciation charges.

Q. It is not a question of opinion; it is a question of whether the same rate was used, that is all; it is not a question of opinion at all.—A. You can understand why the old company probably charged high rates because the matter of taxes would be involved.

By the Chairman:

Q. I should have thought, Mr. White, when you took the valuation on a new replacement basis that you would have felt it necessary to set up then a larger depreciation than the old.—A. That is a matter of opinion, Mr. Stevens.

Mr. Lash: $4,000,000 of depreciable assets pretty nearly went out, you see.

Mr. Sommerville: Yes, but $5,000,000 of depreciable assets—

Mr. Lash: That is only a replacement.

Mr. Sommerville: $5,000,000 of depreciable assets an increase of $10,000,000 of depreciable assets.

By Mr. Sommerville:

Q. Then, Mr. White, the old company got $19,000,000 for its assets?—A. That sounds high. Is that right?

Q. Well, is it not a fact?—A. I see what you mean. No, they did not get that. On top of page 2 it shows the correct figure.

Q. The assets of the old company were $19,836,000?—A. Yes, an equity of $17,200,000 was purchased for $9,671,000.

Q. That is the $12,852,208, an equity in these assets, but the new valuation was purchased for $9,671,000?—A. Right.

Q. Or $3,181,000 less than the old company—A. Less than the valuation.

Q. Less than the valuation of the book value on the company's books?—A. Yes.

Q. Now then who got the money that was paid for the assets?—A. You have set out at the top of page 2 the requirements, to pay the purchase price of the common shares of the old company $9,671,001.

Q. Wait a minute now:

> To carry out the transaction and acquire the assets of the old company free from encumbrance cash had to be provided:
>
> (a) To pay the purchase price of the common shares of the old company at the above figure.. .. ..$ 9,671,001?

—A. Right.

Q. That is, $9,671,001?—A. Right.

Q. Then:

> (b) To pay the redemption price of the outstanding balance of First Mortgage bonds of the old company (in addition to sinking fund monies available for that purpose.. .. .. $3,190,398.

—A. Yes, that includes the premium.

Q. That included the amount that had to be paid for premium?—A. Yes.

Q. To redeem the bonds at 104?—A. Yes.

Q. Well that is my recollection. That was the amount that had to be provided, and then:—

> (c) To pay the redemption price of the outstanding preference stock of the old company.. .. .. $4,161,450

And that included also the amount for premium of 5 per cent to redeem the outstanding preferred shares. That is making a total amount that required to be made available of $17,022,849; that is correct, is it not?—A. Yes.

Q. Now, $9,671,001 that was paid for the equity in the common shares?—A. Yes sir.

Q. And that was paid to whom?—A. To Mr. Burns.

Q. To Mr. P. Burns?—A. Yes.

Q. And out of that he would require to pay $4,000,000 odd for the assets which he had taken over?—A. He had already paid that.

Q. Yes. Then, that would leave five million odd for the company itself, including the five million odd to Mr. Burns for his equity?—A. Exactly.

Q. And that went out of the old. No, no money went out of the old company. That was for his shares in the old company, and that amount was paid out of the new company?—A. Yes, sir.

Q. In fact, all of these moneys, the seventeen million, were paid out by the new company.

Mr. Lash: The bonds and preferred stock of the preferred company were redeemed by the old company; but with moneys furnished, first as to about four million dollars by Mr. Burns for the assets he took over, and second the proceeds of the preferred stock and bonds of the new company.

Q. Yes. Now then, proceed—if you will just tell us how this money was provided?—A. Shall I read that sir: "In order to meet these payments, there were required funds additional to the available cash in the old company which was applied in redemption of its bonds and preferred stock. The additional moneys were raised through the issue of securities of the new company as follows:—

BURNS & CO., LIMITED (NEW COMPANY) CAPITALIZATION

5½ Per Cent First Mortgage Bonds due 1948		$7,000,000
Annual Interest Charge..	$385,000	
6 Per Cent Preferred Stock (100 par value)		6,900,000
100,000 shares of Ordinary stock without par value .		100,000
		$14,000,000"

Now, we paid 92·8 for the bonds, the 5½ per cent bonds.

Q. For the words seven million of bonds at $5\frac{1}{2}$ per cent you paid the sum of?—A. Whatever 92·8 on that amount would be.

Q. I thought perhaps you might have had that figure?—A. I am sorry, I did not. Then for the \$6,900,000 preferred stock we paid 92·80.

Q. Yes, you paid the same price for each of these issues?—A. Yes, sir. Now, just to go back to the top again; the premium on the old bonds, the old preferred, amounted to \$367,000 odd.

Q. The amount required to pay off the bonds and preferred shares of the old country by way of premium amounted to \$365,000 odd?—A. \$367,000 odd.

Q. \$367,000?—A. Yes.

Q. Now, 92·8 of seven million is \$6,496,000?—A. Now, the discount on the new security.

Q. Wait a minute, just let us get this figure correct; the net amount that went to the old company—\$6,496,000 is the figure I think, is that not correct?—A. Approximately one million dollars on the face value. Is not that set out in your own auditor's report?

Q. This is just the bonds first—?—A. All the bonds.

Q. On all the bonds you have \$6,496,000, that is correct?—A. That is correct.

Q. And that meant that the Dominion Securities had bought these at a discount below par value?—A. Yes, sir.

Q. Of \$504,000 on the bonds?—A. Yes, 7.20.

Q. Now then six million nine hundred thousand of preference shares purchased at 92.80 would amount to—

The CHAIRMAN: What did they sell at?

Mr. SOMMERVILLE: 92.80—that would be about 700,000 less.

The WITNESS: \$6,403,200.

By Mr. Sommerville:

Q. Yes, and that meant that the discount of Dominion Securities was the sum of \$596,800?—A. I did not get that question, Mr. Sommerville.

Q. The discount below par on the preferred shares was \$596,800?—A. Right.

Q. That would be right.

The CHAIRMAN: Figure that \$6,403,200, leaves \$497,000.

Mr. SOMMERVILLE: \$496.800, yes. Oh, I beg your pardon; four million—\$496,800—that is just one million eight hundred.

The WITNESS: That is a figure that is in your own auditor's report.

By Mr. Sommerville:

Q. And that is what it cost the new company to finance themselves in that particular way?—A. Right. By way of discount.

Q. Now, what other cost was there to the new company for financing in this way?—A. No other cost at all.

Q. We have the auditor's report, proportion of expenses payable by Burns Company Limited \$75.029.96?—A. That may be right, sir. I was going over here roughly a million dollars discount, \$367,000 premium on the old securities, general reserve available at present \$1,723.000; which roughly approximated that spread of \$3.181,000. Now, there may be some expenses such as you mention there which our—. Have you any other items of cost, because I think we can make them jibe.

Q. Now, you had them comparing in exactly the same way in the auditor's statement. The entire cost, according to the auditors, were: discount on bonds of P. Burns Company Limited written off \$345,356.48?

Mr. LASH: That is the old company, and I quite agree with Mr. Factor's remark on this item, I do not know what it is all about; this is the old company and apparently a capital item in its book.

By Mr. Sommerville:

Q. I see, yes. Well then, next was premiums on redemption of old issues of bonds and preference shares, $314,670.21.

Mr. LASH: That is included in those items that make up the seventeen million that was required to complete the transaction.

By Mr. Sommerville:

Q. Then, the new financing costs were the discounts on the new issue of bonds, and on the preferred shares, as we have had indicated, one million dollars?—A. Right.

Q. Then, proportion of expenses payable by Burns Company Limited, $75,029.96; then, adjustment re bond interest and dividends on preferred shares of $5,793.36?—A. That is—what did you say that amount was?

Q. $5,793.36. Then, losses applicable to purposes prior to December 31, 1927, $47,548.85; what was that?—A. I could not say, there were a lot of inter-company items here, just at the tail end of the adjustment.

Q. Then, provision for the transfer agreement between Mr. P. Burns and Dominion Securities, paid by the issue of 99,982 common shares of Burns Company Limited, the new company, of a total value of one hundred thousand.

Mr. LASH: You see, there are really the one hundred thousand shares in there. They have taken one item off, the 18 shares that were issued to the applicants for the incorporation of the new company, that makes up the $100,000.

Q. I quite see that, that is the explanation. Then, do you still own the common shares, Mr. White?—A. No, sir. When the company began to experience some difficulties—I have forgotten the year, in 1931 and 1932—Mr. Burns subscribed for additional common shares, if I remember rightly somewhere around $100,000. I am sorry I did not have those figures. I did not know they were relevant. I can easily get them. We, in order to facilitate that transaction, turned over the 60 per cent of the common shares that we held without consideration.

Q. To Mr. Burns?—A. I imagine they went to him. Our agreeing to that was part of the transaction.

By Mr. Kennedy (Peace River):

Q. What is the effect of this writing down; the reorganization and the writing off of four million dollars with respect to common shares.

Mr. SOMMERVILLE: Might we have that just a little later. We will come to refinancing.

By Mr. Sommerville:

Q. I just want to ask you now, what did the company do with the money it received from you?—A. These three transactions at the top of the memorandum, is that not right?

Q. That is, out of seventeen million twenty-two thousand eight hundred and forty-nine are the three items that we have referred to?—A. Yes, sir.

Q. Did it have any other money available then?

Mr. LASH: That was the total amount required for the transaction: There was the four million of cash, which had been paid in by Mr. Burns to the old company and which was used for the purpose of the redemption of the old company's bonds and preferred stocks, and paying for its liability; and the

balance of the money beyond the four million odd that was available from that source was raised by the issue of the bonds and preferred stock of the new company, making a total of seventeen million.

The CHAIRMAN: That is, something over eighteen million was actually raised.

Mr. LASH: No, the company had some assets and they sold these to Mr. Burns for four million cash, and in addition to that there was this twelve million nine hundred that was raised, making approximately the seventeen million that is required to pay for this.

The WITNESS: Might I just observe that I think what you are driving at is this: the new company started off after this financing was completed with liquid assets of $4,393,000 as against $4,366,000 which this memorandum required—I think that is what you mean, what other monies did they have on hand on the completion of financing.

Mr. SOMMERVILLE: I want to know what they had on hand.

The WITNESS: $4,393,000 net, of liquid assets after the completion of the financing.

By the Chairman:

Q. As a matter of fact, Mr. White, after you got through with the complete refinancing of the new company, which now takes the place of the old P. Burns Company, it had no additional cash available for the purposes of the company?—A. It had practically the same net liquid assets as the old company to start them with.

Q. Virtually, the same liquid position?—A. Exactly.

By Mr. Sommerville:

Q. The old company had net liquid assets amounting to $4,366,339?—A. The old company, yes.

Q. And the new company started with net liquid assets of—?—A. $4,393,000.

Q. And the new company started with outstanding senior obligations of some fourteen million?—A. Thirteen million nine hundred thousand.

Q. For which they received twelve million nine hundred in cash?—A. Right.

Q. And the Dominion Securities received a million dollars?

Mr. LASH: Oh, no.

Mr. SOMMERVILLE: They had the securities for a million dollars less than—?

Mr. LASH: Less than their par value.

Mr. SOMMERVILLE: Less than their par value, yes. And that amount would be one million dollars and that would cover the expenses of handling and brokerage commission to the Dominion Securities in selling the securities.

The WITNESS: That was our gross spread.

Mr. SOMMERVILLE: Gross spread, yes. And the net result was then that they started out with increased charges or obligation, whatever you wish to call them, of $325,000. Now, perhaps you will just finish the statement.

By the Chairman:

Q. It seems to me, Mr. White, that there was what you might call, "much ado about nothing," wasn't there?—A. How do you mean, sir.

Q. I simply mean this: after all of this marvellous refinancing and reconstructing of the company, the company is not only in no better position to start anew, but with much heavier obligations, and in a much weakened operating position, as far as the financing operation is concerned?—A. Yes, sir, if you want to put it that way.

By Mr. Sommerville:

Q. And with four million dollars less assets?—A. Is that the case, I don't think so.

Mr. Lash: Cash went in for those; no, no.

The Chairman: They were washed out.

Mr. Heaps: Were not those in the original books in the appraisal of the old company?

Mr. Sommerville: Yes.

Mr. Kennedy (*Winnipeg*): They were paid for in cash.

By Mr. Sommerville:

Q. They were paid for in cash. Then, a lot of these bonds were taken up by the old bond holders, were they not, Mr. White?—A. That, I cannot say, sir.

Q. I mean, there was an offering?—A. Naturally they would be offered the new security. We have had clients on our books holding Burns Securities for 20 years.

Q. And the net result was that the bondholders who took the new bonds over gave up $6\frac{1}{2}$ per cent first mortgage bonds of three million dollars and took $5\frac{1}{2}$ per cent first mortgage bonds on the same assets or fewer assets to the extent of seven million.

Mr. Lash: That is hardly fair, they sold their old bonds and received cash for them. What they did with the cash afterwards was their own business.

Mr. Sommerville: I say, if they bought bonds of the new company.

Mr. Lash: There would be the difference between the premium—an additional amount if they took the same par value.

Mr. Sommerville: Perhaps you had better put it this way, the bondholders of the old company had three million dollars worth of bonds on the securities and assets of the old company.

Mr. Lash: Right.

Mr. Sommerville: And the new bondholders had seven million dollars worth of bonds.

Mr. Ilsley: On four million dollars less assets.

Mr. Lash: No, on the same amount of assets.

Mr. Ilsley: How do you make that out?

Mr. Lash: Because the cash went into the old company. It paid off the old bondholders.

Mr. Ilsley: May be that is right; but there were ranches and buildings and all sorts of things.

Mr. Lash: Instead of that, many of these assets had continuous losses—there was one item of $40,000 for taxes—

Mr. Ilsley: But still, they were assets.

Mr. Lash: Those assets went out, and they were replaced by cash which is a pretty good asset.

Mr. Kennedy (*Winnipeg*): If you can hold it.

Mr. Sommerville: Then, the preferred shareholders of the new company, which took preferred shares, or all of them, would get 6 per cent preferred stock instead of 7 per cent preferred stock in the old company; and they would get $6,900,000 of preferred shares instead of $3.900.000. And they would get these shares subject to existing mortgages of $7,000,000 in the new company, as against $3,000,000 in the old company—that is about the net position.

Mr. Lash: Practically.

By Mr. Sommerville:

Q. Now, how is the company doing, Mr. White?—A. I have not the figures before me. They have had a vast improvement the last—their earnings, they started to turn about eight months ago or ten months ago.

Q. And what has been the reorganization that took place?—A. I am sorry, I have not those details here; in substance—

Q. We have the last balance sheet in the auditor's report?

By Mr. Kennedy (Peace River):

Q. Was the control in connection with this reorganization in the hands of the bondholders and the shareholders?—A. Not at the time.

Q. Or, was the control in the hands of the management?—A. The control was in the management, vested in their management shares, which were used for the sole purpose of appointed directors, who in turn appointed managers.

Q. I notice the evidence here says, we are advised that the bondholders and the shareholders have recently approved the reorganization?—A. Yes.

Q. It was approved after it was done, is that it? The reorganization was carried through by this management control first and then submitted?—A. No, no.

Q. What is the meaning of it?—A. There was a bondholders' committee, of which one of the officials of the Mutual Life was the Chairman, and there were other members—I have just forgotten who they were.

Q. Members of the bondholders' committee?—A. Yes.

Q. And the whole thing was worked out by them in conjunction with—?—A. With representatives of the preferred shareholders, and approved at a meeting of the bondholders and preferred shareholders. I think at the preferred shareholders' meeting there were some 238,000. Only 200 shares voted against it at the bondholders' meeting. It was approved by the Superior Court of the Province of Alberta some three or four weeks ago.

By Mr. Sommerville:

Q. And, what is the re-organization that did take place then; can you explain it?—A. I am sorry, Mr. Sommerville; I did not know I was going to be asked that. But in substance, the bonds remain the same as they were under this plan; with, I think, 3 per cent guaranteed, and then the balance of 2½ per cent or something like that as an income bond; and that the preferred shareholders own now some 95 per cent of the company, subject to these bonds.

Q. And have the preferred shareholders now voting rights, or are they vested entirely in the common stock still?—A. This bondholders' committee like the idea of management preferred shares. There are five of these, and I understand that of these three were issued to the nominees of the bondholders' committee, and the others to the nominees of the holders of the preference and common shares. So that in the sense of having the right to nominate the holders of these shares, the preferred shareholders and the bondholders control the company.

Mr. Kennedy (*Peace River*): And took a sacrifice.

Mr. Sommerville: Mr. White says that the bondholders now appoint three nominees to the management control, and the preferred shareholders nominate two, making five.

Mr. Lash: I think that is correct. It may possibly be that there are still only three.

The Witness: That is all a matter of record. I am sorry I have not got it here.

By Mr. Sommerville:

Q. At any rate, the bondholders and the preferred shareholders together make the nominations for management control?—A. Right.

Q. Now, of the bonds, the Dominion Securities still hold a substantial quantity?—A. We have no bonds, Mr. Sommerville. We have something less than six thousand shares of preferred; we are the largest holders of preferred.

Q. Six thousand out of sixty-nine thousand?—A. Yes, sir, they stand in our books I think at 89.

Q. Yes, and then the auditor reports to us that as a result of the new financing—at least, there is the balance sheet—the auditor says, "We are advised that the bondholders and shareholders have recently approved the reorganization which will result in the cancellation of approved bond interest amounting to $774,457.30 and in a reduction of the capital stock by $4,299,300. This amount will be distributed as follows: reduction in the book value of: investments in subsidiary companies $765,068.87; other investments $146,198.28; the elimination of deficit $1,109,826.97, less bond issues of $774,457.30, leaving a deficit of $335,369.67; increase in reserve for depreciation $2,516,634.07; and reserved for contingencies $536,029.11; or a reduction in the status value of the capital stock of $4,299,300. Can you tell me which of the holders of which security took the sacrifices that were necessary to bring about this reduction of $4,399,000?—A. The bondholders cancelled interest of $774,000 according to this statement.

Q. That would leave about $3,500,000 still to be taken care of by somebody?—A. By the preferred.

Q. That would be taken care of by the preferred. What happened to the common stock?

Mr. LASH: Reserve for contingencies, that is included in there and increase in reserves for depreciation. Those things are just book figures. They have exactly what they had before, and on the question of this set-up I cannot see that these people have lost that. The preferred shareholders now have got, I think I am safe in saying, practically 98 per cent of the ownership of the business subject to the bonds. They had before merely their preferred stock and the ownership of the business went to the common shares. The common shareholders have, in effect, given up everything except about 2 per cent of the equity, and the balance goes to the preferred shareholders; so that they own a great deal more than they ever did in the operation of a going concern.

Mr. SOMMERVILLE: Have they voting rights?

Mr. LASH: Through these management preferred shares now they have the right to nominate.

Mr. SOMMERVILLE: The preferred shareholders do not vote in the meeting of the company; the common shares still do all the voting?

Mr. LASH: No, the management—

Mr. SOMMERVILLE: The management preferred shares would be the only voting shares?

Mr. LASH: For the purpose of electing and removing directors. On any other matters—I do not know the exact details—but on other matters the preferred and common shareholders I think both have the right to vote now.

By the Chairman:

Q. I notice in this balance sheet, January 1, 1934, the depreciation account has been restored to $5,000,000. That pretty well accounts for the difference between the book value of the old company and the new replacement value of the appraisal company?—A. It probably would the last four years.

By Mr. Kennedy (Winnipeg):

Q. Have preferred shareholders the right to vote irrespective of whether or not the dividend on preferred stock is in default?

Mr. LASH: I think they still have no right to vote except that they nominate the holder of the management preferred shares who represents them in the appointment of directors, so that in this case they vote for directors by nominating a man who has the right to vote. It is nearly as bad as the presidential election in the United States.

Mr. KENNEDY (*Winnipeg*): If the dividends on preferred stock are in default they have the right to vote?

Mr. LASH: I do not know. I do not know whether they have or not, or whether that has been modified in this reorganization.

Mr. KENNEDY (*Winnipeg*): Have you any reason to believe it has been modified?

Mr. LASH: I just don't know.

Mr. SOMMERVILLE: These six annual reports from 1928 to 1933 will be filed.

(Annual reports, 1928-33 filed, marked Exhibit 209.)

(Prospectus $6,900,000, Burns Co., Ltd., filed, marked Exhibit 210.)

Mr. SOMMERVILLE: Will you be good enough to let us have a prospectus for the issue of the bonds.

(Prospectus for bond issue filed, marked Exhibit 211.)

Is there anything else you want to say in connection with this reorganization?

The WITNESS: Nothing.

Witness retired.

The committee adjourned to meet at 3.30 p.m.

AFTERNOON SITTING

The committee resumed at 3.30 P.M.

The CHAIRMAN: Gentlemen, we have a pretty hard day before us. As far as I know, there is nothing more regarding the Burns' matter we wish to take up, and if there is nothing more the committee wants to ask, we shall continue with the presentation of a brief by Mr. Sparks on behalf of the Canadian Pharmaceutical Association. May I make this observation; a very carefully prepared brief will be presented, and I think if the committee is agreeable, we should allow the brief to be put on the record as complete as possible, and reserve our questions as far as reasonable until later. I am not objecting at all to questions, but the committee have been so courteous in the past, and it is in order to facilitate the business of the committee I make that suggestion.

Mr. PARRY: Mr. Chairman, there are five representatives of the Pharmaceutical Association appearing here, as follows: H. D. Campbell, Montreal, President, Canadian Pharmaceutical Association; A. J. Wilkinson, Windsor, Ont., Chairman of the Council, Canadian Pharmaceutical Association; A. F. LaRose, Montreal, Immediate Past President, Canadian Pharmaceutical Association; C. G. Whebby, Toronto, Pharmacist, former President, Proprietory Articles Trade Association; Dr. R. B. J. Stanbury, Secretary, Canadian Pharmaceutical Association. It has been requested that Mr. Wilkinson be allowed to make a very brief statement, before Mr. Sparks, who is counsel for the group and their representative here, makes his representations to the committee.

Mr. ARTHUR J. WILKINSON, called and sworn.

By Mr. Parry:

Q. You are the chairman of the council of the Canadian Pharmaceutical Association?—A. I am.

Q. I understand that you want to address a few remarks to the committee before Mr. Sparks proceeds with his presentation?—A. Thank you.

Mr. Chairman and gentlemen of the committee, I thank you very much for giving me this opportunity to say a few words on behalf of the druggists of Canada. What I have to say will be very very brief, as it is simply an introduction to the arguments that Mr. Sparks has prepared.

On behalf of the Canadian Pharmaceutical Association, Inc., which includes every registered druggist in Canada, we wish to present certain facts concerning the problems of distribution of proprietary articles and patent medicines. In this regard, there is probably no class of business in which predatory price cutting is more prevalent.

In 1927 the situation had become so acute that retail and wholesale druggists together with manufacturers of proprietary articles and patent medicines organized an association known as the Proprietary Articles Trade Association, and instituted a system of price maintenance. Subsequently this Association was the subject of investigation by a Commissioner appointed under the Combines Investigation Act, as a result of which the Proprietary Articles Trade Association was dissolved.

We wish at this time to lay before you conditions in regard to the retail drug business, and suggest to you that some method should be adopted of legalizing a general system of price maintenance. Mr. R. P. Sparks has made a very intensive study of the whole problem of fixed resale price, and we have asked him to present a brief on our behalf.

Before doing so, however, I would like to take this occasion on behalf of the retail drug trade to call your attention to the disastrous condition which exists amongst retail druggists, which we believe is largely due to unfair, unethical, and at times dishonest methods employed by the large distributors of proprietary or patent articles. The question has been raised at some of the earlier hearings before this Committee as to whether the present price-cutting conditions was due to the depression or whether it was a method of merchandising which had been developed earlier. Evidence will be submitted showing that these conditions have existed in the drug trade for many years.

Might I take this occasion to point out that the drug store occupies a unique position in the retail field. The independent druggist is more than a merchant. He has had to take a long university training. His place of business is usually open from early in the morning to late at night. He gives a more personal service than most classes of distributors. When an investigation into drug merchandising was held in 1927 by Mr. L. V. O'Connor acting as Commissioner, under the Combines Investigation Act, Commissionner O'Connor made this reference to the retail druggist:

> Apart from the professional side of his business, the retail druggist performs very important service in the community. His place of business is open for possibly a longer period of time daily than that of any other line. He is looked upon as a general information bureau, and he attempts to devise divers ways and means to accommodate and meet the whims of the consumer. Before he is entitled to practise as a pharmacist he must take up a very intensive and costly course of study. There are also many obligations imposed upon and hazards assumed by the retail druggist in the practice of his profession. Not only must he keep in mind the provisions of the Pharmacy Act, but he must be ever alive to the provisions of

such legislation as the Opium and Narcotic Drug Act and the Proprietary or Patent Medicine Act. The duty is also imposed on the retail druggist to check up prescriptions handed to him by the physician so as to make certain that no injury will result to the consumer. Truly, it may be said that the retail druggist is a health station in every locality.

Evidence will be laid before the Committee which will demonstrate that the independent retail druggist is a very efficient distributor, who is rendering a service of great importance to the community, and we trust your Committee will find ways and means of enabling him to continue to perform that service.

As evidence of the deplorable financial condition of independent retail druggists throughout Canada, we submit herewith figures received by the Canadian Pharmaceutical Association, from The National Drug and Chemical Company Limited, and other sources.

The following figures are from reports received from the National Drug and Chemical Company in regard to a number of druggists whose credit standings are so unsatisfactory that they must purchase on a C.O.D. basis:—

Province	Total number of Drug Stores	Drug Stores on C. O. D. basis
Quebec	564	72
Ontario	464	143
New Brunswick	121	22
Manitoba	238	69
Saskatchewan	410	197
Alberta	277	48
British Columbia	271	48

The Might Directories Limited, who prepare a mailing list for commercial use, list only 927 "responsible" druggists in Ontario. There are 1,500 druggists in Ontario.

The President of Casgrain & Charbonneau, Wholesale Druggists, Montreal, reports that thirty-one per cent of the retail druggists in the Province of Quebec are on a C.O.D basis.

The Secretary of the Nova Scotia Pharmaceutical Association reports that twenty per cent of the retail druggists in Nova Scotia are on a C.O.D. basis.

It is reasonable to assume that a retail merchant who is on a C.O.D. basis with his suppliers is making a very poor living, and probably has lost a part or all of his capital. It is, of course, true that the financial condition of some of these druggists may be due to other causes than cutthroat competition. We submit, however, that the general cause is predatory price-cutting by the large corporate distributor against whose tactics the independent druggist, regardless of his ability or efficiency, is unable to compete."

With these few preliminary remarks, I will ask Mr. Sparks to present the general case on behalf of the Canadian Pharmaceutical Association.

By Mr. Kennedy (Winnipeg):

Q. Just before you retire, there is one point I should like to clear up. I understand that every registered druggist in Canada is a member of the Canadian Pharmaceutical association?—A. Just so.

Q. Is it compulsory?—A. The Canadian Pharmaceutical association is really a federation of the provincial pharmaceutical association, and as each druggist must of necessity be licensed by his provincial government, then he automatically becomes a member of the Canadian Pharmaceutical Association because there is a per capita tax collected from the province.

Q. By statute?—A. No, voluntary. The license fee from the druggist to his provincial body is statutory; the per capita tax is optional with the provincial bodies.

Q. Would there be anything to prevent a duly licensed druggist in any province—it is absolutely necessary that he be a member of the provincial phar-

maceutical association?—A. Yes, he cannot become—he cannot procure a license to practise pharmacy, without having paid his fee to the province.

Mr. PARRY: He is licensed by what body?

The WITNESS: By the provincial body.

By Mr. Kennedy (Winnipeg):

Q. By being licensed by the provincial body he becomes a member of the pharmaceutical association?—A. Yes.

Mr. R. P. SPARKS: Called and sworn.

By Mr. Parry:

Q. I do not think you need any introduction to an Ottawa audience. You have prepared a very comprehensive brief on your representations. Will you just proceed?

" A. Our purpose in appearing before your Committee is to submit evidence in support of the principle of price maintenance, or the fixing of a resale price by manufacturers of proprietary articles or patent medicines sold under an advertised brand, and to suggest an amendment to the Combines Investigation Act which will make legal agreements between manufacturers, wholesalers, and retailers for this purpose. This proposal goes to the very root of the problem of price spreads which is now before the Committee.

We might point out at the outset that price maintenance as we suggest it is not an American experiment, but is a British experience. We will show that:

1. Consumers as a whole are not benefited by price cutting.
2. That the independent druggist is a more efficient distributor than the chain store or departmental store, and is being unfairly discriminated against under the present methods of distribution
3. That price maintenance or a fixed resale price is beneficial to manufacturers, wholesalers, retailers and consumers.
4. That the Combines Investigation Act was used in the case of the drug trade to encourage monopoly in distribution, not to prevent it.

It appears desirable that at the outset we should establish that price-cutting is prevalent in this business. It will be unnecessary to go at great length into this phase of the problem, as the Committee is now doubtless fully convinced that the sale of loss leaders constitutes one of the principal methods by which chain stores and departmental stores promote the sale of goods. In order that our case be complete, however, we have prepared a number of exhibits representing advertisements appearing in each of the provinces of Canada. These exhibits include a copy of the advertisement to which is attached a memorandum showing the number of lines taken from each advertisement with the advertised price and the cost price as sold by wholesalers at their regular list.

Out of a total of 142 articles advertised, 104 or 73 per cent of the total were advertised below the wholesaler's regular list price, while 38 or 27 per cent of the total were advertised at slightly above regular wholesaler's list price. The 104 articles advertised below cost average 12 per cent less than the wholesaler's list price, the 38 articles advertised at above cost average 6 per cent above wholesaler's list price."

These are the exhibits, and on each one is a notation of the articles advertised.

The CHAIRMAN: Exhibit 212.

List of articles advertised with notations, filed and marked exhibit 212.

The WITNESS: They represent eight out of nine provinces.

Mr. Parry: There are various firms. I notice the T. Eaton company in the "Leader Post" of Regina and other firms handling products throughout Canada.

"We wish to put before you particularly the influence on distribution of the chain drug store. While predatory price cutting is a feature of departmental store and mail order distribution, these agencies more or less willingly accepted the principle of price maintenance on proprietary articles when it was put into effect some years ago. Price maintenance, however, was bitterly opposed by the largest chain store organizations in Canada, and for these reasons we will deal particularly with the competition between the chain store and the independent retail druggist."

By Mr. Ilsley:

Q. You made a statement that price maintenance was bitterly opposed by, did you say, two of the main chain store organizations in Canada?—A. One of the largest, the largest, I think.

Q. What form did their opposition take; who were they?—A. It was Tamblyn's, Limited, of Toronto. It took the form of public advertising, denouncing the organization of the Proprietary Trade Association. Finally it went to the extent of asking for an investigation under the Combines Investigation Act. Tamblyn's Limited stated publicly that they were the applicants for the investigation.

Q. That was the opposition to which you referred?—A. Yes.

Q. Were there any others?—A. No; so far as I know, the others accepted, as I have said, more or less willingly.

Q. They have a chain of drug stores?—A. Yes; they are operating 56 drug stores.

Q. In Ontario?—A. At the present time.

Q. In Ontario alone?—A. Practically all in Ontario.

By Mr. Parry:

Q. Did not Tamblyn's also bring a civil action, Mr. Sparks?—A. Yes.

Q. What happened to it?—A. Nothing happened to the civil action; they went ahead with the investigation of the P.A.T.A.

Q. The action was dropped—A. Yes.

"The development of chain stores during the past thirty years has been most rapid in two particular fields of distribution; that is, groceries and drugs. The full effect of chain store operations in a general way can perhaps be better studied by observing its effect upon the drug trade than in any other branch of business. There is no business in which predatory price cutting is more prevalent and more destructive than the sale of proprietary articles and patent medicines. Price cutting when carried to the extent of selling goods at cost or less is done for one purpose only, and that is to attract buyers to the pricecutter's store in the hope or expectation that they will buy something upon which there is an exorbitant profit. Obviously the pricecutter does not cut prices in the interest of the buyer. His motive must be self-interest. If price cutting is to be profitable to him he must sell his customers goods on which there is a normal profit, but he must do more than that. He must make an abnormal profit on some goods in order to compensate for the goods which he has sold at a loss. That such is the case was well established when an inquiry was held into the drug store business in 1927.

The application for an inquiry under the Combines Investigation Act, with which we will deal later, was made by Mr. G. Tamblyn, at that time in control of a chain of drug stores known as G. Tamblyn Limited. Tamblyn's sold a full line of standard proprietary articles, and also sold goods under three different private brands, known as: 'Santax,' 'Revery,' and 'Tamblyn's.' During the inquiry Mr. Gordon Tamblyn, President of the Company, gave evidence."

Now, I have prepared copies of some statistical matter which I am going to refer to. I have one for each member of the committee, which I think will facilitate getting it clearly. The first three tables are submitted for the purpose of showing that the price cutter does what we have just said, gets an exorbitant profit on some things to make up for the things on which he takes a loss.

This first statement shows the mark-ups on private brands of G. Tamblyn, Limited, and it is all taken from sworn evidence. You will note in the first column there is the line of goods, the next is the page—that means the page in the sworn evidence at the investigation. Then there is the unit cost price, the regular selling price.

By Mr. Parry:

Q. You referred to the investigation, Mr. Sparks. You mean the investigation by the commissioner under the Combines Investigation Act,—which is very comprehensive,—held in 1927, which established or revealed these cost prices, irregular selling prices and figures that are produced here?—A. Yes.

Mr. KENNEDY (*Peace River*): This report has been made public, has it?

Mr. PARRY: Yes.

The WITNESS: The report has been made public. The evidence has not been made public.

By Mr. Kennedy (Peace River):

Q. This is taken from the evidence?—A. Yes.

Q. Should we not have the evidence here, if we are going to deal with it?

The CHAIRMAN: You can get it if you want to, I imagine.

The WITNESS: I have given the page in the evidence, as evidence of good faith.

Mr. KENNEDY (*Peace River*): I am not saying anything about that.

Mr. PARRY: The report itself will be tabled, with the proceedings.

Mr. KENNEDY (*Peace River*): There are always two sides to it.

The WITNESS: These statistical tables are, I think, correct, so there would not be two sides.

Mr. KENNEDY (*Peace River*): I can understand that.

The WITNESS: You will notice that we made an average at the bottom, and that on the first, on these Santax goods, at the regular price they made a profit of 123 per cent on cost; and when they sold them at low prices, cut prices, they made an average of 56 per cent on cost.

By Mr. Parry:

Q. Were these standard products frequently sold at these low selling prices to which you have referred?—A. The standard products were very frequently sold at low prices; but the private brands were very rarely sold at low prices, only a day once in a while. So that, if these were weighted, you would find it would be very much higher than the averages we have given. Now, the second one is another private brand called "Revery."

By the Chairman:

Q. Wait a minute. You have now referred to Table No. 1?—A. Yes.

The CHAIRMAN: We will have these tables inserted in the evidence at this point.

TABLE No. 1

STATEMENT SHOWING MARK-UPS ON PRIVATE BRANDS, OF G. TAMBLYN LIMITED, CHAIN DRUG STORE, TORONTO, IN 1927. (SEE P.A.T.A. EVIDENCE)

Line of Goods	(Page)	Cost Price per Unit	Reg. Selling Price	Per cent Mark-up on Cost	Lowest Sale Price	Per cent Mark-up on Cost
		cts.	$ cts.	%	cts.	%
Santax Health Salts..........	(1436)	15	.50	233	33	120
Santax Bath Soap............	(1438)	7	.15	112	3 for 25	18
Santax Cocoanut Oil..........	(1438)	14	.50	257	29	107
Santax Shave Cream.........	(1442)	21	.35	66⅔	23	9·5
Santax Shave Stick..........	(1444)	16	.35	118	19	18
Santax Tooth Paste..........	(1446)	13	.25	91	18	38
Santax Tooth Powder.........	(1447)	9½	.25	160	9	−6
Santax Emulsion of Cod Liver Oil........................	(1506)	43	1.00	124	77	72
Santax Massage Cream.......	(1441)	13	.25	91	No Cut Price Given	
" "	....	26¼	.50	90	"	"
Santax Emulsion of God Liver Oil........................	(1506)	23⅓	.50	124	"	"

	On Regular Price	On Lowest Sale Price
Average Mark-up on Santax Line...........	123% on Cost	56% on Cost

It will be observed that the lowest mark-up of any of the eleven lines quoted was 66⅔ per cent advance on cost, and the highest mark-up was 257 per cent advance on cost, or an average mark-up on the whole Santax line when sold at regular prices of 123 per cent on cost. Even when these were offered for special sales at cut prices the average mark-up was 56 per cent on cost.

TABLE No. 2

STATEMENT SHOWING MARK-UPS ON PRIVATE BRANDS OF G. TAMBLYN LIMITED, CHAIN DRUG STORE, TORONTO, IN 1927. (SEE P.A.T.A. EVIDENCE)

Line of Goods	Page	Cost Price per Unit	Reg. Selling Price	Per cent Mark-up on Cost	Lowest Sale Price	Per cent Mark-up on Cost
		cts.	$ cts.	%	cts.	%
Revery Tooth Paste..........	(1465)	13	.25	92	18c. 2 for 25c	27
Revery Hair Tonic...........	(1468)	32	.50	57	39	22
" "	"	63	1.00	43	79	25
Revery Cold Cream..........	(1470)	22	.50	129	25	14
Revery Brilliantine (Liquid).	(1773)	15¾	.35	122	23	46
Revery Brilliantine (Solid)..	(1474)	26¼	.50	90	32	22
Revery Face Powder.........	(1474)	31½	1.00	217	63	100
Revery Perfume..............	(1475)	15⅔	.25	60	15	−5
Revery Peroxide Cream......	(1476)	26¼	.50	90	37	41
Revery Talcum..............	(1476)	31½	.50	60	33	5

	On Regular Price	On Lowest Sale Price
Average Mark-up on Revery Line..........	86%	27%

In regard to the "Revery" line, the lowest mark-up on cost when sold at regular price was 43 per cent, and the highest 217 per cent, or an average mark-up of 86 per cent on cost. When these lines were offered at cut prices the average mark-up was 27 per cent on cost.

TABLE No. 3

STATEMENT SHOWING MARK-UPS ON PRIVATE BRANDS, OF G. TAMBLYN LIMITED, CHAIN DRUG STORE, TORONTO, IN 1927. (SEE P.A.T.A. EVIDENCE)

List of Goods	(Page)	Cost Price per Unit	Reg. Selling Price	Per cent Mark-up on Cost	Lowest Sale Price	Per cent Mark-up on Cost
		cts.	$ cts.	%	cts.	%
Tamblyn Blood Purifier....	(1486)	35½	1.00	182	69	95
Tamblyn's Carbolic Ointment....................	(1488)	11½	.25	119	18c. 2 for 33c.	43
Tamblyn's Catarrh Balm..	(1488)	19⅔	.50	154	29	47
Tamblyn's Celery Nerve Tonic....................	(1489)	27½	.50	81	33	20
Tamblyn's Celery Nerve Tonic....................	(1489)	51	1.00	95	63	23
Tamblyn's Children's Cough Syrup............	(1490)	11½	.25	119	18c. 2 for 33c.	43
Tamblyn's Corn Remedy..	(1491)	10	.25	150	No Cut Price Given	
Tamblyn's Dyspepsia Tablets......................	(1492)	13	.25	91	19	45
Tamblyn's Dyspepsia Tablets......................	(1493)	21⅓	.50	146	39	92
Tamblyn's Excema Ointment.....................	(1493)	11¼	.50	344	29	158
Tamblyn's Emulsion.......	(1493)	19½	.50	155	34	74
" "	(1493)	34	1.00	193	67	96

	On Regular Price	On Lowest Sale Price
Average Mark-up on Tamblyn's Line....................	145% on cost	76%

Table No. 3 shows the same figures for the Tamblyn line, on which the lowest mark-up was 81 per cent and the highest 344 per cent or an average when sold at regular prices of 145 per cent on cost. Even when sold at cut prices the Tamblyn line showed an average mark-up of 76 per cent on cost.

TABLE No. 4

STATEMENT SHOWING MARK-UPS ON STANDARD BRANDS OF G. TAMBLYN LIMITED, CHAIN DRUG STORE, TORONTO, IN 1927. (SEE P.A.T.A. EVIDENCE)

List of Goods	(Page)	Cost Price per Unit	Reg. Selling Price	Per cent Mark-up	Lowest Selling Price	Per cent Mark-up
		cts.	cts.	%	cts.	%
Eno's Fruit Salts.........	(1456)	70⅙	79	13	67	
					2 for $1	−29% loss
Scott's Emulsion.........	(1496)	37	45	22	39	5
" "	(1496)	74½	85	14	73 or 74c.	
Baby's Own Soap.........	(1523)	7	3 for 24c.	12	3 for 19c.	−12% loss
Baby's Own Tablets.....	(1524)	14½	16c. 3 for 45c.	5	14c. 3 for 40c.	− 6% loss
Benger's Food............	(1524)	57¼	59	3	49	−14% loss
Blondex...................	(1525)	55½	79	42	69	24
Bovril.....................	(1526)	16	25	56	18	12
"	(1526)	27½	40	45	29	5

Average Mark-up on Regular Selling Price 21% on cost   Average Mark-up on Lowest Selling Price −3·3% Loss on Cost

By the Chairman:

Q. You are now referring to Table No. 2?—A. Yes.

Q. One which contains material of the same character, showing another private brand of this company?—A. Yes, of this company. When selling this brand at the regular price, they made an average of 86 per cent profit. It

ran from 217 per cent down to 43 per cent; and even when sold at the lowest price, they made an average of 27 per cent on cost. Table No. 3 is another private branded line.

Q. Of the same company?—A. Yes.

By Mr. Kennedy (Peace River):

Q. Is this Tamblyn's own evidence?—A. Yes, this is his own evidence.

Mr. Parry: I think you had better make a particularly clear distinction between proprietary brands and standard products.

By the Chairman:

Q. These are Tamblyn's own proprietary brands, is that it?—A. Yes. The first is Santax Health Salts. Nobody but Tamblyn sells Santax Health Salts. Anybody sells Eno's Fruit Salts and a number of other salts. In fact, the independent retailer must deal in some of these other commodities. But Tamblyn's had a private brand of health salts.

By Mr. Parry:

Q. This would not be a nationally advertised product?—A. No.

Q. And would not be subject to wholesale distribution at all?—A. No. It was made for Tamblyn and sold by nobody else.

Q. Not comparable with any other product of another name, particularly? —A. No, it had no advertising value at all. There was no use cutting prices on this because there was no advertising value. It is his own brand.

By Mr. Kennedy (Winnipeg):

Q. Was the name protected?—A. Yes, I assume it would be protected. I presume it would be.

By the Chairman:

Q. You are at Table No. 3 now?—A. At Table No. 3. This is another private brand; and you will notice these three private brands cover a large range of proprietary articles. They have something to offer to replace many of the leading standard products. On Table No. 3 on the regular selling price, which was the price usually, they made 145 per cent; then at the lowest selling price they made 76 per cent.

By Mr. Kennedy (Peace River):

Q. How would the lowest price be taken; is there a sale put on?—A. A sale put on.

Q. Once in a while?—A. Advertised for one day.

Q. And the other was the standard price over a period?—A. Yes.

By Mr. Parry:

Q. The price at which it was consistently sold?—A. The regular selling price he usually sold it at. But occasionally he marked it down. Now, the importance of these figures I have just given is revealed when we look at Table No. 4. This is a rather short list, but these were all the goods that happened to be mentioned in the evidence given by Mr. Tamblyn. These are standard products, Eno's Fruit Salts, Scott's Emulsion, Baby's Own Soap, and Bovril. Now, you will notice the average mark-up at the regular selling price was 21 per cent on cost, and at the lowest selling price was 3·3 per cent less than cost. I think it would be safe to say that most of the time these goods

were sold at the special price, certainly to a very much larger extent than his own private brands. So it is a general picture of chain store methods. That is our submission, that this is their scheme of doing business.

Q. The distinction being that they protect their products?—A. Yes.

Q. And use it for a profit?—A. Yes.

Q. But when it comes to a nationally advertised article, it is used to attract the trade that purchases these things?—A. Yes. They might and they could advertise Eno's Fruit Salts for a particular day at 29 per cent less than it cost them; and they could on that day, 56 stores, have a very elaborate counter display of Santax Health Salts showing a profit of 233 per cent. Human nature being what it is, they might attract a customer's attention, who came in for a bottle of Eno's Fruit Salts, to very excellent salts which they put up themselves; and conceivably the customer might buy the 233 per cent whereas he came for something sold at 29 per cent loss.

By Mr. Kennedy (Winnipeg):

Q. Would the price of their own be more or less than that of Eno's?—A. Well, it would be a different quantity, a different package, a different type of thing altogether.

By Mr. Parry:

Q. Would that make much difference? If they were boosting the sale, it would not affect the idea, would it?—A. No, not at all. As a matter of fact, previous to this investigation, they paid salesmen a commission on sales of these private brands. That is, there was every evidence that they did want their salesmen to push the private brands as opposed to the standard brands. But they did use standard brand goods to get the customers into the store. That is the sum and substance of chain store methods. That is the way it is done.

By Mr. Kennedy (Peace River):

Q. I would like to ask one question, Mr. Sparks. I see the first article in Table No. 1 is Santax Health Salts, and on Table No. 4, Eno's Fruit Salts. I notice that the cost price per unit of Santax Health Salts is 15 cents while Eno's Fruit Salts in $70\frac{1}{6}$ cents, is it?—A. Well, that would be a different sized package, to begin with, Mr. Kennedy. Presumably Eno's would be a better product: I don't know. I don't know who would say so.

By Mr. Parry:

Q. It would, at least, be a different product; put it that way?—A. Yes, a different product, but one could be used in the place of another. Just dealing with these private brands, I think this is interesting, because it fits into the whole picture:

In connection with the sale of goods under the brand of "Revery", on the packages containing these preparations there was a signature of "Revery", in script. The evidence given as to the use of this name was rather interesting. It was as follows:—

> *By Sir William Glyn-Jones* (P.A.T.A. Evidence, Page 1461):
>
> Q. You put up a line of Revery Preparations?—A. Yes.
>
> Q. Who is Mr. Revery?—A. The same—I think he is a brother of Mr. Santax.
>
> Q. Is that his signature, Mr. Tamblyn?—A. That is just a name, sir.
>
> Q. Just look at it.—A. I don't know—I don't think there is any such party.

Q. No.

Mr. McMaster: He is a fictitious person?

By Sir William Glyn-Jones:

Q. He is a fictitious person, Mr. McMaster suggests.—A. Yes.

By Mr. Ilsley:

Q. Who was Mr. McMaster acting for?—A. For the government. Then there was a statement by Sir William Glyn-Jones as follows:—

Sir William Glyn-Jones: I would like the Commissioner to see that. Here is "Revery Dental Cream for the Teeth and Gums—Revery, Perfumer and Chemist", and Mr. Revery appears to have signed it. There is his script.

(A sample of Revery Dental Cream was filed, marked Exhibit B-43.)

Sir William Glyn-Jones: I simply read that Mr. Revery purports to be a chemist and a perfumer and he purports apparently to have signed it. But there is his script. He is not only alive, but he writes a nice hand, sir—a nice signature.

By Sir William Glyn-Jones (Page 1465-66):

Q. Mr. Tamblyn, do you thing it is quite fair to the public to sell them a tooth paste which bears the name of a fictitious person, which describes the fictitious person as a perfumer and chemist, when no such person exists?—A. Oh, I think that is quite—quite common in the trade, yes.

Q. Good merchandising—A. Whether or not it is good merchandising it is for you to judge. I don't pretend to be a good merchandiser. But I say it is quite common in the trade.

Q. Is it quite common? Are these signatures you see on the outside of bottles quite common?—A. You see them only in chain stores or department store. You don't see them in the retail trade druggist's store, because he can't do that sort of thing. He is not big enough.

Q. I have seen quite a lot of them?—A. However, I don't know whether it is quite common. The head of this chain store said it was quite common in their trade. In fact, I have another example here, rather an interesting one too. Tamblyn's also sold a toothpaste under the name of "Dentomint". Here are just a few sentences from the evidence, beginning with a question by Sir William Glyn-Jones:—

By Sir William Glyn-Jones (Pages 1511-1512):

Q. But I see printed on this (package): "A scientific preparation. Besides being a splendid cleanser for the teeth, acts as an antiseptic to the whole mouth and is germicidal and purifying to the gums and tends to prevent pyorrhea. The Dentomint Company, New York, Toronto London." What is the address of the Dentomint Company of New York, Mr. Tamblyn?—A. That is an error. That will have to be changed too; both that and the London.

Q. There is no such company as the Dentomint Company, is there? —A. No.

Q. And I suppose you supplied the material for the wording of the carton.—A. I don't remember that we supplied that. I provided the name and I think the Corson Company provided the language on it.

Mr. Parry: They didn't say who supplied the address?

The Witness: That is to say, a small manufacturer in Toronto made up the toothpaste and labelled it "The Dentomint Company, New York, Toronto and London."

Q. Who is Corson?—A. He is a manufacturer, or was at that time; but since is out of business.

Q. What is he doing now?—A. Well, I think he is with the packers, the Canada Packers.

By Mr. Edwards:

Q. In other words, he has graduated?—A. Yes, he has graduated.

By the Chairman:

Q. What is he doing there, putting up fertilizer Are they still in existence? —A. Who is that, Tamblyns? Oh, yes.

Q. These mysterious, ghostly scripts or signatures?—A. Oh, I imagine they have taken in "Revery" after that.

By Mr. Kennedy (Peace River):

Q. And Dentomint?—A. I should think they would take the address off Dentomint, yes, but I have no doubt they have replaced them with something else.

By the Chairman:

Q. The private brands are carried in the same way?—A. Yes.

Mr. WILKINSON: The "Revery" line is advertised in the same way.

The CHAIRMAN: The same script?

Mr. WILKINSON: I don't know about the script, but the practices are the same.

The CHAIRMAN: We can get that.

Mr. PARRY: Do you suggest that the sale of these products might have increased since the P.A.T.A. was put out of business?

Mr. WILKINSON: I don't know.

The CHAIRMAN: All right, Mr. Sparks, will you continue?

The WITNESS: "During this inquiry the managers of the T. Eaton's Company's drug departments at both Toronto and Winnipeg appeared before the Committee. Mr. Unsworth, the manager of Eaton's drug department in Toronto testified (see page 4033) that the private brands sold under their own name carried an average mark-up of approximately 50 per cent, whereas he admitted selling standard brands as loss leaders at cost or less. A similar admission was made by C. A. Hunter, manager of Eaton's drug department in Winnipeg (see page 3730)."

By the Chairman:

Q. That is, in this former inquiry?—A. The former inquiry, the same inquiry. I don't want to put Mr. Tamblyn in the position of being the only ones that do it, because all the chain stores do it, and all of these large companies. They make private brands, or have private brands made for themselves, and they make huge profits on them, and they entice customers in by the sale of loss leaders. That is what we object to.

"The condition indicated by these tables shows that the chain stores who have goods made under private brands make a regular practice of making up losses which they sustain by cutting prices on standard goods by getting exorbitant profits on goods under their own private brands. The general public have no means of determining the proper value of these private brand goods. That this is a general practice is well established by the inquiry made in the United States into chain store operations by the Federal Trade Commission.

Some of the largest chains in Canada are controlled from the United States, and there is every reason to believe that conditions in this regard are the same.

We beg to submit Table No. 5 showing the distribution of percentages of gross profits made on private and competing standard brand items in drug chains in the United States. This table appears in Senate Document No. 40. The first column shows the percentage of gross profit. The Federal Trade Commission had found that the operating expenses of drug chains in the United States was 33·3 per cent. It will be noted in the last column that 54·3 per cent of the standard brand goods sold were sold at less mark-up than total cost including operating expenses. In contrast this table shows that slightly more than one-half of 1 per cent of private brand items were sold at below cost, in other words a net profit was made on more than 99 per cent of the private brand goods."

TABLE No. 5

DISTRIBUTION OF PERCENTAGES OF GROSS PROFITS MADE ON PRIVATE AND COMPETING STANDARD BRAND ITEMS IN DRUG CHAINS ON MARCH 30, 1929, IN U.S.A.

Federal Trade Commission Inquiry—Senate Document No. 40

Percent of Gross Profit	Private Brand Items			Competing Standard Brands Items		
	Number	Per cent of total	Per cent cumulated	Number	Per cent of total	Per cent cumulated
Less than 25%	1	0·6	0·6	80	32·4	32·4
25% to 30%	0	....	0·6	23	9·3	41·7
30% to 33·3%	0	....	0·6	31	12·6	54·3
33·3% to 35%	0	....	0·6	32	13·0	67·3
35% to 40%	0	....	0·6	24	9·7	77·0
40% to 45%	10	6·0	6·6	36	14·6	91·6
45% to 50%	9	5·4	12·0	8	3·2	94·8
50% to 55%	23	13·8	25·8	9	3·6	98·4
55% to 60%	18	10·8	36·6	3	1·2	99·6
60% to 65%	35	20·9	57·5	1	0·4	100·0
65% and over	71	42·5	100·0	0	....	100·0
Total	167	100·0	....	247	100·0	....

The cost of doing business in 1929 in the 118 drug chains which reported their operating expenses to the commission in detail was 33·3 per cent of their total net sales (preliminary figures).

By Mr. Heaps:

Q. When you mentioned operating expenses of drug stores, have you confined it purely to drugs?—A. No.

Q. You don't find many drugs in drug stores, do you?—A. Well, I have the percentages in the drug stores as they are operated in the United States.

Q. That is on everything you find in a drug store; that costs 33·3 per cent?—A. Yes.

Putting it in another way, 54 per cent of all the standard brands were sold at less than cost, and 99 per cent of all the private brands were sold at over cost.

Q. What is the reason for that?—A. The reason I have just given you, Mr. Heaps, that they use standard brands to attract customers to the store and then sell the private brands.

Q. Is it possible that it costs them less to buy the private brands than the standard brands?—A. Well, I don't know just what you mean, Mr. Heaps.

Q. Well, supposing the T. Eaton Company make a bottle of medicine of their own make, it would not cost them as much to produce that bottle as to

buy a similar article of goods from a wholesaler.—A. I do not think I could answer any questions about the cost of these articles. As retailers we are concerned with the selling price.

Q. It costs them as much to buy the bottle but you would expect them to sell it for less.

The CHAIRMAN: Of course, the point I understand Mr. Sparks is making at the moment is not the relative merits of two given articles, but rather that the practice is in certain lines to sell widely advertised proprietary brands to the public, the merits of which are known and not in question, at a low price, not infrequently below cost, whereas goods put up for themselves no matter what their cost may be are sold at a very wide margin of profit.

By Mr. Heaps:

Q. Is that not due to the fact that on a proprietary article, nationally advertised by the wholesaler may be charged possibly too much to the retailer?—A. I do not think that is the reason, Mr. Heaps. After all you get about what you pay for. If you buy a cheap article the chances are that it did not cost as much as a high priced article

Q. You know, Mr. Sparks, that the value of drugs, of the T. Eaton Company, is very small compared with the price paid?—A. I would not say, Mr. Heaps.

By Mr. Edwards:

Q. You would not admit that, Mr. Sparks?—A. No.

Q. You are only dealing with the system of distribution?—A. Yes.

By Mr. Kennedy (Winnipeg):

Q. Are you a druggist, Mr. Sparks?—A. No I am not a druggist, Mr. Kennedy.

Q. You understand that where proprietary articles are sold at less than the wholesale cost you assume that the retailer will make up his loss by the larger profit on certain other articles?—A. Yes.

Q. And might it not be that he would recoup himself for the loss on these high priced articles by increasing his volume of trade on other articles on the basis of exorbitant prices?—A. Well, but he does not sell his standard brands at a loss; he could not recoup himself by getting volume on them because the more he sold the more he would lose.

Q. No no. Supposing he advertised Eno's Fruit Salts at a price that is below the wholesale price, it attracts the public attention; they say: Well, here is a man selling drug supplies at a low price we will go in and buy. Well, if he loses on that article he might make it up on the volume of other articles which he sells which are not well known brands?—A. I think we have established that that is not the case. I think we have established that by sworn evidence, and as I pointed out they have found on enquiry in the United States that the standard brands of goods are universally sold at a low price, below cost, and 99 per cent of the private brands are sold at a profit, I think at a very high percentage of profit, at 65 per cent or over; 42 per cent of all the private brand goods sold in the United States are sold at over 65 per cent profit, and I think that establishes what we say.

By Mr. Heaps:

Q. Gross profit?—A. That is gross profit, mark up, yes. That means 100 per cent profit because they establish that the operating cost is $33\frac{1}{2}$ per cent and then they show that 42 per cent of all their high priced goods are sold at 100 per cent profit, and I think that establishes that they make it up in the way that we suggest.

By Mr. Kennedy (Winnipeg):

Q. Is 100 per cent profit an uncommon profit in the sale of drugs?—A. It certainly is in the retail drug sales. As a matter of fact, I am going to show later that the retail druggist is scarcely making a mechanics wages.

By Mr. Edwards:

Q. Mr. Sparks, does not your argument sum up to this, that on the regular standard advertised lines, lines that are nationally advertised, they are used as bait to bring a customer into the store, and then by means of bonuses and so forth the druggist's own private lines are sold to the customer if at all possible? —A. I think that is correct.

Q. Is not that the story, Mr. Sparks?—A. I think that is the story, Mr. Edwards.

By Mr. Heaps:

Q. Well, take a bottle of fruit salts. The T. Eaton Company put up their own fruit salts. Can you say from your own knowledge that the fruit salts of the T. Eaton Company are inferior to Eno's Fruit Salts?—A. I cannot express an opinion on that, but we know that the public have decided that Eno's Fruit Salts have merit by buying them in tremendous quantities. The public decide these things, and the public decide whether or not they want a certain line of proprietary articles, and if they do then we know that they must have merit.

Q. Suppose for arguments sake that they are both of equal quality, and suppose one sells for 75 cents and the other for 45 cents, what would you attribute that to?—A. Well, I cannot take your assumption that they are both of equal quality.

Q. You cannot say that they are not?—A. No I cannot say that they are not.

By Mr. Ilsley:

Q. They are paying the advertising out of the 75 cent article?—A. Yes.

Q. And it might possibly be that these standard articles are costing more than they ought to cost, because a druggist does spend a lot of money in advertising?—A. Yes, there is a lot of money spent in advertising.

Q. And it might also be true that the purchaser who is buying a private brand at 100 per cent profit is getting just as good value as the purchaser who is buying a standard brand at no profit?—A. It is rather unlikely but it is conceivable.

Mr. Ilsley: I think that is Mr. Heaps' point.

By Mr. Kennedy (Peace River):

Q. Mr. Sparks, with regard to the average mark-up on regular selling price, Table No. 4, 21 per cent on cost, is that regarded by the drug trade generally as being a fair mark-up?——A. No it is not, Mr. Kennedy. The next thing I say—

Q. I mean in connection with this?—A. No, Mr. Kennedy. No druggist can operate on a 21 per cent mark-up, no chain store, or anybody else.

Q. This is the average mark-up in Tamblyn's store?—A. These were the average mark-ups in Tamblyn's store. I am just coming to the question of mark-ups, Mr. Kennedy.

The Chairman: All right, Mr. Sparks.

The Witness: Now, Table No. 7—

Mr. Parry: Are you putting in Table No. 6, Mr. Sparks?

The Witness: Yes.

TABLE No. 6

NUMBER OF DRUG STORE CHAINS REPORTING HIGHER, LOWER, OR SAME MARK-UPS ON PRIVATE BRANDS THAN ON STANDARD BRANDS IN U.S.A.

Federal Trade Commission Inquiry—(U.S. Senate Document No. 142)

—	Chains		Stores	
	Number reporting	Per cent of all reporting on mark-ups	Number operated by chains reporting	Per cent of Total operated by all chains reporting
"Higher" Mark-up	45	63·4	1,109	89·8
"Same" Mark-up	23	32·4	106	8·6
"Lower" Mark-up	3	4·2	20	1·6
Total	71	100·0	1,235	100·0

The WITNESS: Table No. 6 gives the number of drug store chains reporting higher, lower, or same mark-ups on private brands than on standard brands in the United States. The most interesting point about this table is that the chains operating 89.8 per cent of the stores reported that they sold private brands at higher mark-ups than standard brands. 8.6 were sold at the same mark-up, and 1.6 were sold at a lower mark-up, that is, 89.8 per cent at a higher mark-up of private brands than standard brands.

By Mr. Kennedy (Winnipeg):

Q. What table is that, Mr. Sparks?—A. Table No. 6.

The CHAIRMAN: Now we come to Table No. 7.

The WITNESS: The next is Table No. 7.

TABLE No. 7

GENERAL STATISTICS OF RETAIL DRUG STORES IN CANADA, 1930

(Dominion Bureau of Statistics)

—	All Drug Stores	Independent Stores	Chain Stores
Number of stores reporting expenses	2,879	2,587	292
	$	$	$
Salaries and wages of employees	6,701,200	4,820,300	1,880,900
Total wage costs, including value of proprietors' services	10,452,800	8,871,900	1,880,900
Other operating expenses, including rent	7,428,500	5,539,600	1,888,900
Total operating expenses	17,881,300	14,111,500	13,769,800
Net Sales	66,460,700	52,489,600	13,971,100

SUMMARY OF OPERATING EXPENSES OF DRUG STORES IN CANADA

(Dominion Bureau of Statistics)

—	Number of Stores	Net Sales	Average Sales per Store	Total Operating Expenses	Expenses per $100 Sales
		$	$	$	$ cts.
All Drug Stores in Canada	2,879	66,460,700	23,085	17,881,300	26 90
Independent Stores for Canada	2,587	52,489,600	24,305	14,111,500	26 88
Chain Stores for Canada	292	13,971,100	47,846	3,769,800	26 98
Chain Stores for Canada, including Total Administrative Expense	....	....	....	....	27 73
Estimated Operating Ratio, including 6% Warehouse Expense	....	....	....	....	33 73

The WITNESS: You will note that all drug stores in Canada show an average cost of $26.90 expenses per $100 of sales, and the independent stores show $26.88 expenses per $100 sales. We found that that figure did not include all of the administration expenses of the chains.

By the Chairman:

Q. At head office?—A. Yes, at head office. It should also be noted that the operating expenses as shown does not include the operating cost of the central warehouses operated by the chain stores, and enquiry at the Dominion Bureau of Statistics revealed that the whole of the executive and administrative expenses were not included, as in some cases no returns were made to the Bureau of Statistics giving these figures. We are advised that approximately three-quarters of one per cent might be added to the percentage of operating expenses of the chain stores due to the fact that the whole of the administrative and executive expenses were not added.

By Mr. Ilsley:

Q. Yes, but does not he wholesale as well with his warehouse?—A. He does not. He supplies his own chains only. If we also added the cost of operating central warehouses, probably another 6 per cent might be added. The Dominion Bureau of Statistics explained that their reason for not adding expenses of the chain store central warehouses was that these warehouses were treated as wholesale houses. It is our submission that the cost of operating central warehouses might properly have been allocated against the retail outlets as a large chain store organization must of necessity have a central warehouse, whereas in the case of the independent retailer, while he may buy from wholesalers, he may and does also buy from manufacturers. The Dominion Bureau of Statistics treated these central warehouses as ordinary wholesale houses, and their operating costs do not appear at all in the chain store statistics. However, even disregarding this item, the figures clearly show that the independent drug store is able to distribute goods at a lower cost per hundred dollars of sales than the chain store organization. The Canadian figures are substantiated by the figures prepared by the United States Census of Distribution. We are prepared to put a great deal of stress upon that. I think it is basic.

It will be noted that included in the operating cost as shown in Table No. 7 is the estimated value of proprietor's services. The question asked by the Dominion Bureau of Statistics was for the proprietor to give the total salary and commission received for the year. "Independent owners of stores may have regarded this as requiring them to furnish figures as to their total income, which would have included interest on their investment. If such were the case this would not be giving a true picture of their operating expenses, as the independent merchant owning his own business is entitled to a return on his capital in addition to a living wage. The Dominion Bureau of Statistics in making their estimates took this into consideration, and for this reason figured the value of the services of proprietors who did not report a fixed salary at the average salary of a full time employee in the same kind of business in the same province. The final average, therefore, used as an estimate of the value of a proprietor's service, was $1,428 a year.

It will be noted that the average sales in independent stores was $24,305. The Dominion Bureau of Statistics reports do not give any estimate as to the capital employed. We know, however, that the average stock is turned over about three times a year, which would indicate an investment of at least seven to eight thousand dollars; interest alone at 6 per cent on this amount would be about four to five hundred dollars a year.

It will therefore be observed that the druggist, taking into consideration that he is a professional man who has had an expensive university training, is carrying on at a very low compensation for the service he is rendering to the community. It should be noted that the retail census was taken in the year 1930, before the full effect of the depression had become apparent, so that the very small return to the independent retail druggist as revealed by these figures was not due to the depression, but was a normal condition, brought about, we submit, very largely by the price cutting competition of the chain stores, departmental stores and mail order houses.

There is another fact which should be taken into consideration when comparing the cost of operation between the chain store and the independent, that is, that a substantial portion of the chain store business is done at a loss. This increases the turnover and reduces the ratio of expenses to sales. These loss leaders are sold for advertising purposes. If the loss incurred was charged to advertising expenses it would greatly increase the ratio of operating expense. It is true that some individuals have been benefited through the chains selling goods at a loss, but it distorts the true figure of operating ratio against sales, making the price cutter appear to be more efficient than he really is."

From the standpoint of their operating cost the chain stores are exceedingly inefficient, no doubt about that at all.

By Mr. Heaps:

Q. Do you want to make them more efficient now, Mr. Sparks?—A. Yes, we are going to make them efficient; if we get price maintenance they will have to compete on an even basis. If we get anything like fair competitive conditions we are not a bit afraid of the chain stores because we are more efficient.

By Mr. Kennedy (Winnipeg):

Q. If their costs are higher than the independents how are they able to compete with you?—A. They are buying at less than we do, Mr. Kennedy, that is one of the reasons, the principal reason, because their operating costs are so much higher than ours that they must, of necessity, get their goods at lower prices.

By Mr. Parry:

Q. That is what you mean by being put on an equal footing?—A. Yes. The thing than would suit the public best would be to give the man that operates most efficiently has goods at the cheapest price and then the public would get goods cheap.

Q. And that is what price maintenance will help to do, to give the efficient distributor an even chance to compete?—A. Yes, and that is one of the reasons why we are convinced that price maintenance is in the public interest.

By Mr. Heaps:

Q. Is there not a difference between the ordinary drug store and the average chain store in the character of the goods and the business they perform?—A. Not much in the character of the goods.

Q. The variety of goods you can get in a chain store is greater, is it not, such as candies, jewelry, all kinds of things?—A. Well, I am sorry to say that a lot of the independents have had to resort to that sort of thing too. I do not think there is much difference in that regard.

Q. They are all doing the same thing now?—A. Some of the retailers do not appear to be very much better in that regard.

By Mr. Kennedy (Winnipeg):

Q. On this matter of price maintenance, do you not think there would be considerable apprehension,—whether rightly or wrongly—in the minds of the

public in general, that with fixing of prices they may get goods costing them more?—A. In the minds of the public, yes, there is no doubt about that; the same reason that the public are going to the chain stores to buy these loss leaders because they think they are getting goods cheap. That is a fact, and it is discrediting the independent. The public think the chain stores are cheap, we don't.

By Mr. Heaps:

Q. Is it possible in these loss leaders that the wholesaler absorbs some of the loss?—A. No, I do not think the wholesaler takes much loss.

Q. You think he maintains his price all the way through?—A. No I would not say he maintains his price. I do not think he makes much on some of these loss leaders. I think the wholesaler probably takes them at a lower price too.

Q. You mean he sells them at a lower price?—A. Yes, I think he does.

The CHAIRMAN: All right, Mr. Sparks.

The WITNESS: In that table the question of proprietors' salaries come into it, that is, in the table of operating costs.

By Mr. Parry:

Q. You are referring to Table No. 7?—A. Yes, to Table No. 7, the question of wages. The average return to proprietors of independent drug stores was $1,428. We know that the average drug store does about $25,000 a year; we know that the turnover is about three times a year, and all that the average independent retailer gets out of it is $1,428 a year.

By Mr. Heaps:

Q. Is that net?—A. That is net.

Q. After paying salaries?—A. No, that is the proprietor's drawings from the business.

Q. Total drawings?—A. Yes total drawings. I presume that is it. I have the questionnaire sent out, and I think that is what the proprietor regarded as his return. Now normally 6 per cent on his investment would be between $400 and $500 a year, so according to the Bureau the average proprietor is only getting about $1,000 a year.

By the Chairman:

Q. Salary?—A. Yes, salary.

By Mr. Parry:

Q. Were those figures arrived at before or after the depression started?—A. Those were before the depression; these are 1930, before the depression started. Here we have professional men of a very high type getting apparently an income on an average of about $1,000 a year, and we attribute it almost solely to this chain store competition discrediting the independent by these methods of loss leaders and that sort of thing.

Now, there are several tables here, Table No. 8, and Table No. 9.

TABLE No. 8

COMPARATIVE OPERATING EXPENSES OF INDEPENDENT AND CHAIN DRUG STORES IN U.S.A.

(U.S. Census of Distribution, 1930)

—	All Stores	Independents	Chains
	$ cts.	$ cts.	$ cts.
Operating expenses per $100 sales	27 12	26 98	27 64
	$	$	$
Sales	1,690,398,682	1,378,096,961	312,301,721
Expenses	458,139,670	371,803,157	86,336,513

(The Chain Store figures include central buying and administrative expenses, but not central warehouse expenses.)

Table No. 8 shows similar figures for the United States, and shows that the independent stores are more efficient from the standpoint of operating expenses than the chain stores.

The WITNESS: I just want to establish firmly that the independent is the most efficient distributor. Table No. 8 was taken by the U.S. Census of Distribution, 1930, and you will note that it showed that the operating costs per one hundred dollars of sales, all stores, were 27.12; independents 26.98; and chains 27.64.

By Mr. Parry:

Q. This supports your Canadian figures?—A. Yes, Now the next Table is more interesting still.

This, Table No. 9, was taken from the trade commission enquiry and includes central warehouse cost. The interesting figure is shown in the fourth column, "Percentages of operating expenses to sales". Now, this brings in another aspect, this takes in the small chain of six to ten stores, and carries the table right through to chains of from 501 to 1,000. This demonstrates further the inefficiency; that the larger the chain the higher the net operating cost. You can see this, it goes from 27 to 32, and in chains having from 501 to 1,000 stores, it goes to 34.74.

By the Chairman:

Q. Those figures are taken from the report of the Federal Trade Commission of the United States?—A. Yes. It is a very exhaustive enquiry, and it shows that the larger the chain the more inefficient it becomes. Of course, that is well known to economists. It not only applies to chains, it applies to departmental stores as well; the larger the unit the more inefficient it becomes and the more they have to charge the public.

Q. And you are submitting this statement, Table No. 9, in support of that statement?—A. Yes, and I give documentary evidence—I give the Senate document No. 40, and it is available, we can supply the original document if you desire.

TABLE NO. 9

OPERATING RESULTS ACCORDING TO SIZE, BY NUMBER OF STORES, FOR DRUG CHAINS IN U.S.A.

Federal Trade Commission Inquiry—(Senate Document No. 40)

No. of Stores per Chain	Average Sales per Store	Percentage of Gross Margin to Sales	Percentages of Operating Expenses to Sales	Percentages of Operating Profit to Sales	Rates of Inventory Turnover
	$				
6-10	91,534	31·85	27·82	4·03	3·76
11- 25	104,105	32·71	28·30	4·41	3·76
25- 50	112,282	36·08	31·95	4·13	3·67
51- 100	147,283	35·98	31·60	4·38	3·59
101- 500	136,221	38·52	33·60	4·92	3·85
501-1,000	121,851	37·23	34·74	2·49	3·28
Average	117,809	36·60	32·89	4·21	3·64
Trend	Upward	Upward	Upward	Indeterminate	Indeterminate

The very exhaustive investigation made in United States by the Federal Trade Commission revealed another interesting fact in regard to the ratio of operating expenses to sales. Table No. 9 shows that in a general way the chains with a smaller number of stores operate more economically than the larger chains. It will be noted that for the chains of 6 to 10 stores the operating percentage to sales was 27·82, whereas for chains of 501 to 1,000 stores the comparative figure was 34·74. While there was some slight variance in this table, the trend is very clearly revealed showing the larger the chain the higher the operating ratio. It should be noted that the figures given in Table No. 9 include the cost of operating central warehouses by chain store organizations. The same trend, however, is confirmed in the report of the United States Census of Retail distribution. There is another interesting feature revealed by this table, which is that the operating ratio does not fall with the increased sales by the operating units.

By Mr. Ilsley:

Q. This is just a general principle which you say applies to the drug store, or is it to the Chain store?—A. Yes. I hope, if I am permitted, before this enquiry ends to make a general statement before this committee on behalf of 150,000 retailers in all branches of business. This, I think, Mr. Chairman, is a most complete picture that we have of this drug store business, it has the largest percentage of total volume of any chain store organization in Canada; groceries is the next. Groceries and drugs are the two great chain store commodities. We have had this special enquiry into the drug chain operation, so I think we have more information on that. These are facts. The next table is No. 10.

The CHAIRMAN: It shows about the same results?—A. The same story.

TABLE NO. 10

OPERATING EXPENSES OF RETAIL DRUG STORE CHAINS IN U.S.A.

(Retail Chains—Census of Retail Distribution—1929)

Operating Expenses by Size of Chains

—	Net Sales	Operating Expenses	Per $100 Sales
	$	$	
Total	312,301,721	86,336,513	27·64
Less than 6 units	33,669,311	8,927,841	26·52
6 to 10 units	27,381,416	7,508,275	27·42
11 to 25 units	35,960,854	9,840,259	27·36
26 to 30 units	38,353,057	10,024,506	26·14
50 to 100 units	13,219,025	3,363,771	25·45
More than 100	163,718,058	46,672,861	28·51

(Central office buying administrative expense and executive salaries are included in the above figures, but they do not include central warehouse expense.)

It might be noted that the 4 chains, with more than 100 stores each, operating 1,343 stores, do over half of the drug chain business in United States, but they also have a higher operating expense than any other group.

They do approximately one-tenth of the drug business in the United States.

Table No. 10 indicates an operating ratio of 26·52 for the smallest chain, increasing to 28·51 for the largest. This table does not include the cost of operating central warehouses.

This Table No. 10 gives us the same story: starting with the small units at 26·52, running up to more than 100 at 28·51.

Now, here is the Dominion Bureau of Statistics.

TABLE NO. 11

DRUG STORE CHAINS IN CANADA—1930

Drug Store Chain Operating Expenses—(Dominion Bureau of Statistics).

Chains Classified by Type of Operation

—	Number of Chains	Number of Units	Net Sales (1930)	Total	Operating Expenses Per $100 Sales	Operating Expenses Payroll per $100 Sales	Other Expenses (including rent) Per $100 Sales
			$	$			
Total, All Chains	31	292	13,917,087	3,769,830	26·98	13·46	13·52
Local Chains	24	174	6,696,634	1,785,264	26·66	14·25	12·41
Provincial Chains	5	75					
Sectional Chains	1	6	7,274,453	1,984,566	27·28	12·74	14·54
National Chains	1	37					

Table No. 11 shows the average operating ratio for local and Provincial chains in Canada as 26·66, as against Sectional and National chains of 27·28. While the figures of the Dominion Bureau of Statistics are not as complete, they do show the same general trend.

This survey by the Dominion Bureau of Statistics was not as exhaustive. Table No. 11, you will note, groups them into local and provincial chains; and

you will note that the cost for the small chain is 26·66, while that for the national chains is shown at 27·84. The reports as to Canadian and American operations differ as to details, but they show that the independent is the more efficient operator of the two.

TABLE NO. 12

Proportion of Chain Store Business done in Drugs in Canada by Size of Locality

(Dominion Bureau of Statistics)

—	All Stores	All Sales	Chain Stores	Chain Store Sales	Percentages Chain Stores to Total	Percentages Chain Store Sales to Total
		$		$		
All Localities	3,559	76,848,900	289	14,273,600	8·12	18·57
Over 100,000	1,127	33,102,400	182	9,555,000	16·15	28·86
30,000—100,000	347	10,076,800	62	3,043,000	17·87	30·20
10,000—30,000	388	10,104,200	26	1,218,900	6·70	12·06
1,000—10,000	832	15,120,800	12	338,800	1·44	2·24
Less than 1,000	865	8,444,700	7	117,900	0·81	1·40

Table No. 12 shows the proportion of the total drug store business in Canada obtained by the chain stores. It will be observed that 18·57 per cent of the total sales were made by chains. This table indicates that the chain stores obtain as high as 30 per cent of the total business in cities between 30,000 and 100,000 population. This table, however, does not indicate the full extent to which the price cutting organizations are affecting the business of the independent dealers, as it does not show the effects of mail order sales which would be much larger in the localities of less than 1,000 population, where there are 865 independent stores, nor does it deal with the sales by departmental stores. In regard to the latter, in a report of the Dominion Bureau of Statistics covering the province of Ontario only and dealing with the operatings of departmental and chain stores and independents, it is shown that 9·83 of the total sales are made by departmental stores, 33·02 by the chain stores, and 57·15 by independent stores.

I do not know that this table is of any particular significance, except as showing the percentage of the drug business in Canada done by the Chain Stores.

By Mr. Ilsley:

Q. Is the percentage increasing, do you know, in chain store buying?—A. It is difficult to say, Mr. Ilsley, we have no recent survey in Canada to show that so we do not know what is happening; but we think perhaps that the 1930 figures give a very fair picture, not distorted by the depression.

By Mr. Parry:

Q. Would you say that in the smaller centres the place of the chain store had been taken by the mail order distributor?—A. Yes, I was just going to read that, this table does not indicate the full extent of it. I should say that the three types of mass merchandising have now half the drug business of Canada; and if the present trend keeps on they will take it all in another twenty years. The whole tendency is toward the merger of big chains, which is eating up the little chains; the whole trend is towards great large corporate interests distributing all consumer goods.

By Mr. Ilsley:

Q. Although that is the most inefficient method of doing it?—A. Precisely.

Q. What is it explained by; how do you account for it, that the most inefficient way is gradually getting the whole thing, that the most inefficient form of organization is driving out the most efficient; how do you explain that?

By Mr. Kennedy (Winnipeg):

Q. Is one of the reasons, Mr. Sparks, their power to beat down the primary producer?—A. That is the only reason, Mr. Kennedy.

By Mr. Ilsley:

Q. Low purchases?—A. Yes.

By Mr. Parry:

Q. That is the mass power we have been hearing about?—A. I would just like to read this.

By Mr. Kennedy (Winnipeg):

Q. Are you going to produce any facts as evidence of that power being exercised?—A. I am going to produce facts as to what these big buyers get that the independents do not get.

By Mr. Heaps:

Q. There is no beating down the producer on the price, is there?—A. No, I do not think we have any evidence to show that there is. We know they are pretty close traders, but we do not charge them with sweat shop conditions, or anything of that kind.

By Mr. Kennedy (Winnipeg):

Q. I have reference to the general principle of mass buying.

The Witness: "It may be asked why, if the independent store is more efficient and has a lower operating cost in relation to sales, it cannot meet the competition of the chains. The answer, of course, is that the buying power made possible by the greater financial resources of the chains, and their ability to purchase in large quantities rather than small quantities, give them an advantage over their independent competitors. This leads us to an examination of the underlying principles of quantity buying. The question may fairly be asked, how much cheaper is the big buyer entitled to buy than the small buyer. The quantity buyer is entitled to a lower price than the small scale buyer, but no quantity buyer is entitled to a discount greater than the actual saving in the cost of distribution which can be justified on economic grounds.

If the quantity buyer pays cash and the small buyer takes 30 to 60 days, the quantity buyer is undoubtedly entitled to consideration equal to the value of his money to the seller. This may amount to 1 to 2 per cent. Some allowance may properly be made owing to the consideration of lesser credit risk. As a rule the large organization is safer to sell and losses through bad debts would be less than if the same quantities had been sold to a large number of smaller independent dealers. We have obtained from one of the largest credit insurance companies in the world a table showing their normal losses in various classes of business, and could satisfy the Committee that an allowance of 1 per cent for the factor of safer credit would be a generous allowance.

There is also the consideration that the cost of selling in large quantities is slightly less than the cost of selling in small quantities. While some sellers in taking large orders may theoretically eliminate selling costs, there are few if any cases in which this is economically sound, but even allowing for a saving in sales

expense of, say 2½ per cent, the three factors here referred to, which we submit are the only factors which should be taken into consideration, will total less than 5 per cent. It is our submission that under most circumstances a manufacturer is justified in making a difference in price of not greater than 5 per cent as between any two classes of distributors. There is no doubt that very much greater concessions than this are made to the big buyers, concessions far in excess of the actual savings, and these concessions are made merely because of the size of the order, the necessity of the seller, or the coercive power of the buyer."

Now, I think these two last sentences sum up the whole story. The reason the big buyer gets the low price is on account of the necessity of the seller, or the coercive power of the buyer.

By Mr. Heaps:

Q. Have you got anything there, Mr. Sparks, as to the prices charged to one set of retailers as compared to another?—A. No. I have something here on what are called advertising allowance rebates.

Q. Have you any actual prices, such as we had in other evidence?—A. No, they are not accessible to us; there is no conceivable way in which we can get them.

Q. You do not know what discounts are being allowed to the large buyers? —A. We have some things, which I will read in a moment.

By Mr. Kennedy (Peace River):

Q. Mr. Sparks, are you aware that the British Cooperative Wholesales do not make any allowances at all for large quantity purchases, in prices?—A. No, I was not aware of that; it is a very interesting fact if it is true.

"The sale of goods at substantially lower prices to one class of retail distributor than to another cannot be justified on any economic grounds. What frequently happens is that the seller in his anxiety to get volume will sell the big buyer at just sufficient to cover his raw material and labour, plus all or part of his overhead costs, depending entirely for his profits on the distributors who buy in small quantities. If this plan of procedure continues, it means, of course, the ultimate elimination of the small dealer and the complete control of distribution by a limited number of large corporations whom we have shown are less efficient than their independent competitors in so far as their operating costs are concerned."

By Mr. Parry:

Q. Can you give us any illustrations of that statement?—A. Yes, I think it would be fair to say this: there are a lot of manufacturers in this country who sell say 50 per cent of their output to the large stores—Eatons, Simpsons and the chain stores. They will sell them, for the sake of illustration, at their labour and material cost plus overhead in order to get the volume, say at 80 and they will charge the independent 100. Our contention is that they should sell the consuming public at 90; our contention is that the theory is absolutely unsound, that these volume sales should only carry overhead and not profit. And we are satisfied that if this committee will go thoroughly into the matter they will find that this is a condition which exists in hundreds of plants throughout this country; that the big buyer buys at cost because the manufacturer wants the volume and he takes the heavy orders, and he makes all his profits out of his customers who buy in small quantities. I know that is a very broad statement. I say that on my own responsibility from the many years' experience I have had in both selling and manufacturing, and because of which I know something about the manufacturing business; that that is what happened; that is the reason that the independents are going out of business.

"The present situation in regard to price cutting has many characteristics similar to that which existed some years ago in regard to the question of freight rates. Anyone familiar with economic history will recall the chaos which existed, particularly in the United States, before the regulation of freight rates became absolutely necessary. The big shippers obtained special rates which led to the destruction of their smaller competitors. In the year 1880 Charles Francis Adams, Jr., presented an argument before a committee of congress in the course of which he said, in part:"

I quote this because of the language, and because it seems to me, while it is dealing with freight rates, it precisely describes the condition of distribution in this country and in the United States. This was the statement of Charles Francis Adams, Jr. at that time:—

"We know that certain large business firms can and do dictate their own terms between rival corporations, while the small concern must accept the best terms it can get. . . In regard to these things I consider the existing system nearly as bad as any system can be. . . Studying its operations as I have, long and patiently, I am ready to repeat now what I have repeatedly said before, that the most surprising thing about it to me is, that the business community sustains itself under such conditions. . . Special contracts covering long periods of time are made every day with heavy shippers, under which the common carrier, whose first duty is to serve all equally, gives to favoured parties a certain control of the market. There is neither equality nor system, law nor equity, in the matter of railroad charges."

I would just like to repeat that last sentence, for purposes of emphasis: "There is neither equality nor system, law nor equity, in the matter of railroad charges. We feel that that should apply to merchandise, that there should be a bottom price to the consumer, as between different distributors.

" The situation called for drastic action, which was taken. Rates were fixed which put all shippers on an equal basis. Provision was made for two sets of rates, one on less than car load lots and a slightly lower rate on full car load lots. It is interesting to note that the car load was accepted as the unit below which rates should not go. To-day a shipper pays the same rate on a train load as a car load. In other words, rate makers have fixed a price below which a distribution service may not be sold.

We suggest that the principle is precisely the same in the sale of commodities, that no buyer is entitled to a lower price on account of quantity buying than is justified on sound economic grounds. It may be claimed that when a manufacturer takes a large order he can effect certain economies in production, and that the buyer is entitled to any savings thus effected. We believe this is thoroughly unsound reasoning. The manufacturer himself has some claim to the savings thus effected, as he must have a large plant and adequate equipment and financial resources in order to take such business, but the true beneficiary should be the general consuming public and any economies effected by large scale production should be spread over the production of the whole plant and should be shared with all the consumers of the product. It should be kept in mind, of course, that if the big buyer had not placed the large order some other buyer or a number of buyers would. The distributor certainly has no control over the volume of goods consumed. That is influenced solely by the purchasing power of the community. It is respectfully submitted that this is the whole crux of the problem of distribution, and that this problem can be most adequately dealt with by a system of price standardization.

Every manufacturer depends upon a wide distribution of his product. In order properly to serve the consuming public he must have his goods offered for sale by all classes and types of retail stores, including the neighbourhood and

small town druggists, who are a social and economic necessity. If wholesalers are to be employed as a means of reaching this type of retailer, then the wholesalers have a right to demand that the retailers they serve shall not be placed at too great a disadvantage in competition with other retailers who can buy in large quantities and to whom the manufacturer finds it convenient to sell direct."

By Mr. Parry:

Q. Will you develop that, it is a subject in which the committee is very much interested; where you said, the small town druggist is a social and economic necessity?—A. That is another matter which is pretty big to start at at this moment. We have made a study to a large extent, a field study, of this social aspect of the elimination of the retailer in the towns.

By the Chairman:

Q. Could you present that to us later?—A. I would like an opportunity, when the chain store and departmental store cases are in to present it, I was trying to boil it down to seven or eight typewritten pages—on the social aspect of this mass distribution; but I think possibly it would be better if you would allow me to leave it for a moment.

Q. That is applicable to all retailers?—A. All retailers; I think we should be confining it too much to deal with it on this drug case.

By Mr. Heaps:

Q. Have you any thoughts on the question as to how you would fix prices?—A. We are advocating a system of price fixing at this time, Mr. Heaps. It does not apply to all commodities, there are some with which it would not be workable. We are only interested in proprietary articles at the moment.

By Mr. Kennedy (Winnipeg):

Q. Your thought is if the manufacturer should fix the resale cost, based on the cost of the article?—A. Yes, I am going to deal with price maintenance in a moment.

The CHAIRMAN: All right, get along.

The WITNESS: We offer no objection to manufacturers selling chain stores or other large distributors, eliminating wholesalers completely. Every manufacturer has a perfect right to choose the medium of distribution which best suits his business, but we do submit that the independent retailer who is performing a valuable social and economic function has some right to protection against his chain store competitors, who utilizes his tremendous purchasing power to purchase at low prices. We do not deny the economic justice of what is generally known as quantity discounts, but we do suggest that some manufacturers by means of special discounts, advertising allowances, etc., are treating their small distributors most unfairly.

Referring to the matter of advertising allowances, an investigation was held in United States in the drug field by the Federal Trade Commission in regard to the distribution of three and a half million dollars in advertising allowances. The results are given in the magazine "Business Week" for December 24th last, which reads:—

> Delvings into the drug field graphically illustrate the story. The Commission has looked into the relations of 682 manufacturers in 1929 with 49 chain store systems, 58 drug wholesalers and 6 independent department stores. It has found that the 1,577 separate charge accounts maintained on the books of these manufacturers by the chains, accounting for only 39 per cent of their sales volume, collected 70 per cent of the allowances distributed. Some allowances were also traced in 2,529 wholesalers' charge

accounts and 79 accounts set up for the department stores; there were no melons for 29,375 accounts that represented over 87 per cent of the total number on the books.

"Specific allotments of these $3½ millions of allowances for mass buying power and other things are interesting. Liggett's 527 stores collected $815,804 in 1929 or 10·28 per cent on its purchases—which became 13·69 per cent on 1930 purchases. Walgreen operators got a 9·73 per cent rake-off in 1929, 10·06 per cent in 1930; People's Drug Stores, 9·16 per cent in 1929, 9·17 per cent in 1930; Owl Drug, 8·06 per cent in 1929, 10·57 per cent in 1930. But you don't have to be a drug chain operator. Sears, Roebuck came in for extras amounting to 10·02 per cent in 1929, 9·48 per cent in 1930. R. H. Macy & Co., salvaged over half its "6 per cent less" by taking 3·5 per cent in allowances.

" How much of the efficiency of the chain system lies in the allowance may be calculated in some cases. For instance, Walgreen's $10·06 per cent allowance on purchases of $6·1 millions in 1930 is a good 40 per cent of its $1,549,496 reported net income for that year."

Q. That does not take into consideration the special prices they may have obtained for volume buying?—A. No, advertising allowance.

Q. Straight bonuses for advertising?—A. Yes, 40 per cent of net income and straight advertising allowance; but, of course, we know that in addition to that they do get special prices.

Mr. Ilsley: They spend a lot of that for advertising.

The Chairman: No, no; this is space allowance.

The Witness: They spend some of the advertising allowance. The retailer gets the advertising allowance. He spends some of it.

Mr. Ilsley: He usually does not spend it all, but he spends some of it. That is what I understand.

The Chairman: Now, get that clear. When you are referring to advertising allowance to a chain store, what do you mean?

The Witness: A manufacturer selling an advertised product will go to a large organization, and if that large organization will purchase a large quantity of their product and will advertise that product they give them a special allowance to do so, running, as you see, up to 13 per cent.

By Mr. Parry:

Q. Putting the goods on the shelves?—A. Putting the goods on the shelves, advertising them in newspapers. There are many different kinds of advertising allowance contracts.

Q. And you will go further—as far as to say it is used as a form of special rebate for which no service is rendered in many cases?—A. I think it is. The retail druggist will probably advertise anyway.

By the Chairman:

Q. Of course, there is no particular criticism that can be offered of one person paying another person to do his advertising; but what the committee understands by "advertising allowances" of this character is that for the display of the goods in their stores, on their shelves, in particular places—in their windows or in poster displays—that they charge the manufacturer a fee or get an allowance for that. That is what is understood, as I infer, by special advertising allowances?—A. Of course, Mr. Stevens, included in all of this is the necessity of purchasing a large quantity of goods.

Q. Quite so?—A. Which is quite beyond the power of the independent druggist.

Q. The point I am making, because I want to clear it up—it will destroy a substantial part of your case for these allowances if what you now say is true—if the manufacturer simply makes an allowance to the retailer to carry on his newspaper or other advertising for him there is not much complaint which can be made of that, because he would spend the money in this type of advertising. I think you must discriminate between two classes of advertising allowances—poster, window, table, shelf display and quantity and so on—two vastly different things. I would like you to make that clear for your own case?—A. You have the tobacco in mind.

Q. Yes. What I had in mind particularly is the evidence that I think we all have heard regarding chain stores in connection with retail goods.

Mr. WILKINSON: May I say a word? A large distributor will take half a page, we will say, in a daily paper, and that is, presumably, the page of that retailer, whereas it contains advertisements for, we will say, Eno's, Jones and Brown's, and other places; and it is presumable—Tamblyn's for example—I am not accusing them—but presumably it is Tamblyn's ad. made up of fifty items. They are all paid for by the manufacturer. I cannot get that advertising allowance no matter what I do. If I want an ad. I have to pay for every inch I use; his entire ad. is paid for.

Q. Well, that makes it a little clearer. All right, Mr. Sparks, go ahead?—A. "There appears to be a widely held opinion that the evolution in the chain store is a result of broad economic forces. It has been said that our system of mass production required a system of mass distribution. There could be no greater fallacy. Mass production was a result of the mechanization of industry. The development of automatic machinery in practically all lines of production made mass production inevitable. Mass production resulted in improvement in the means of production. There is nothing at all comparable in the field of distribution.. Retail distribution is carried on precisely as it was fifty or one hundred years ago. Whether a drug store be conducted by an independent merchant, or whether it be conducted as a chain store with a brilliantly painted orange front with a glaring sign designating it as a cut rate store, the mechanics of distribution are identical in both of them. It must carry a similar stock of goods. The clerks in the store must handle the goods in precisely the same way. The human effort in selling goods through a chain store or an independent store is identical in every respect, so that no comparison can be made between mass production and mass distribution. As a matter of fact there is no such thing as mass distribution. The chain stores made up of a large number of small units handle goods in the identical same way as the independent store, the only difference being that the independent store is more efficiently operated and usually gives a more complete and personal service than its chain store competitor."

The point I want to make is that mass production was a better way of producing; this so-called mass distribution is a poorer way of distributing. There is no justification for any use of that term at all.

"The cut rate chain store or the downtown departmental store selling patent medicines, proprietary or toilet articles cannot be described as a system of distribution. The most economic method of distribution must be a method that gets wide general distribution in the first place. Chain stores will only establish units where traffic is heavy. They decide on their locations by counting the number of persons who pass a given point, depending entirely upon volume of sales to make profits. They sell a limited number of articles to a limited number of people at a price less than some other articles are sold to some other people, but it is a method of distribution which prevents orderly distribution."

Now, that is rather involved, and it is theoretical, but I think it is correct. The chain stores do not attempt to distribute goods all over the country, they

only pick out a few high spots where they can get volume, and they are not, and never will be, a system of distribution—they will just take the cream and leave the skim milk to the ordinary mediums of distribution.

By Mr. Parry:

Q. Do you think they stop where somebody else has blazed the trail?—A. Yes, they are purely predatory. If a man graduates in pharmacy and wants to go into business, usually he should or he does look around for some place where there is an available opportunity for opening a drugstore, and he will establish there because that particular community requires drugstore service. Now, the chain store does precisely the opposite they will try to find the best and most efficient drugstore anywhere and they will get as close to him as they can, beside him or across the street, with the express purpose of putting it out of business or taking that business away from that man, regardless of his efficiency. They go where there is somebody else, and the better business that other independent has the better it suits them. I mention that to point out that their whole method is predatory. It is not a system of distribution at all, it is an effort to make money out of volume at a given point. They are not concerned about a system of production—and I do not say that the independent store is concerned about a system of distribution—but the economic law is such that distribution will be orderly if it is left to independents whereas it will be predatory if it is left to these large drugstores.

Q. When it does do that does it give the same service as the local druggist gives; does it replace him in the spirit of the service they are calculated to give? —A. I have no doubt every member of the committee knows cut-rate drug stores, and I have no doubt every one of them knows independent drug stores. I do not think there is any question that can be raised by anybody that the service—the whole atmosphere and service of an independent drug store is superior to that of the chain with its—I will not say shop manners—I will say with its lack of personal touch which seems to me to be well adapted to the selling of medicine and that sort of thing. I do not think I need argue as to the relative services which these two types of distribution give, because every member of the committee knows the price cutting drug store and they know the independent drug store and so they can draw their own conclusions.

I am going to touch on the question of price maintenance.

" Price maintenance means the fixing by a manufacturer of a minimum resale price less than which no distributor is permitted to sell his goods. At the present time a great variety of articles are being sold under price maintenance plans. To illustrate how generally price maintenance has been accepted, the following are a few of many articles sold at fixed resale prices—newspapers, automobiles, chocolate bars, radios, freight rates, soft drinks, magazines, women's hosiery, cigarettes, etc."

I have picked out ten articles out of one hundred because they are typical of goods sold at price maintenance.

Mr. Edwards: Are there not quite a number of proprietary articles sold that way?

The Witness: Yes, there are.

" It is perfectly legal for a manufacturer to sell his goods under a resale price agreement, but according to the judgment of Mr. L. D. O'Connor in the P.A.T.A. case, if a number of persons agree to co-operate with each other in order to maintain resale prices, this constitutes a breach of the Combines Investigation Act. We respectfully submit that if the principle of price maintenance is just and fair then any reasonable and proper means for the enforcement of price maintenance agreement is likewise just and fair.

In so far as it affects the drug business, we are only concerned with the proprietary articles sold under the name or brand of the manufacturer and easily identified by the consumer. A clear distinction should be made between what is regarded as price fixing and the plan of price maintenance which we propose. Price fixing usually refers to the fixing of a price at which a producer may or shall sell his product. In the price maintenance plan which we submit for your consideration, the manufacturer or producer is absolutely free to fix any price he wishes at which his product shall be sold to the distributor. Price maintenance means that the manufacturer shall agree to a uniform resale price which shall allow a reasonable gross profit or remuneration to the distributor.

This plan has been in operation for many years in European countries. In the drug trade in Great Britain an organized price maintenance agreement between manufacturers, wholesalers and retailers, known as the Proprietary Articles Trade Association, has been in effect for thirty-six years. This Association has been the subject of two inquiries, one in 1919 when an inquiry was held under the Profiteering Act by a committee of which Mr. Douglas Wenham was the Chairman. It was again the subject of investigation in 1930 by a committee appointed by the Lord Chancellor Sankey. We wish to take the liberty of quoting rather extensively from these two reports, describing them as the Wenham Report and the Sankey Report.

In 1927 Sir William Glyn-Jones, who had been chief executive of the British P.A.T.A. was invited to come to Canada to organize a similar Association in Canada. Subsequently this organization was the subject of an inquiry under the Combines Investigation Act. An interim report was made by Mr. F. A. McGregor, Registrar, and subsequently an inquiry was held by Mr. L. V. O'Connor, acting as Commissioner. These reports we will refer to as the McGregor Report and the O'Connor Report. At the opening of this inquiry, Sir William Glyn-Jones made a general statement in regard to the Association's activities, from which we quote as follows:—"

Now, this is an outline of what price maintenance means as it was in effect:—

"Volume One of Evidence, Page 129:

> The Association was primarily organized by retail and wholesale distributors to secure for themselves a living profit on proprietary articles. . . . . . .
>
> About 150 manufacturers, controlling between them about 600 separate articles, joined the Association because they desired an economical and efficient method of distribution of their articles to the public by the co-operation of the wholesaler and retailer, and it was obvious that this co-operation could not be assured unless those distributors received reasonable remuneration. So convinced were some of the manufacturers of this that they prior to the organization of the P.A.T.A., more or less successfully instituted the system of fixing minimum reselling prices for their articles. This they had done by means of individual agreements. A further large section would have done so but for the difficulty and expense entailed.
>
> Each manufacturer has, of course, a property represented by the goodwill in his trade-mark or brand and the combined value of these properties representing the goodwill of the manufacturers who are members of the Association is exceedingly large. Enormous sums have been invested in creating that goodwill and the owners of their properties are naturally anxious to prevent practices which they are satisfied are rapidly damaging and decreasing the value of their businesses.

No attempt has either been made or contemplated to restrict the facilities for trading in P.A.T.A. articles to members of the Association or to give the members any terms of facilities not open to non-members. Neither has any attempt been made or contemplated to confine the trading to druggists or any particular trade. No effort has been made or contemplated to get manufacturers of rival articles to agree to any uniform system of marketing or of price fixing. The Association has not concerned itself with the price the manufacturers have for themselves in each case fixed as the normal selling price of their articles to the public. In practically every case such prices had long prior to the organization of the Association been fixed by each individual manufacturer, and no manufacturer has been asked by the Association to change that price. There is not and never has been any uniformity in size, package or price. An examination of the tooth pastes on the P.A.T.A. list will provide a striking example of the truth of this statement. . . .

It is true no article is added to the Association's list without consent of the council, but each application is examined by the council, not for the purpose of suggesting any fixing or adjustment of the manufacturer's price to the public, the council's sole concern being to see that taking the price which the manufacturer alone has fixed as the selling price to the public, the manufacturer's price to the trade for that article will leave the distributors a living profit. In other words, the Association is not concerned whether a manufacturer asks the public to pay 25 cents, 50 cents, $1, or any other price—what they are concerned with is that of the 25 cents, 50 cents, $1, as the case may be, which the manufacturer through the trade obtained for his article, he shall allow the trade a suitable percentage as its remuneration.

The CHAIRMAN: That is the end of the quotation from the evidence, is it?

The WITNESS: Yes. That was the statement of Sir William Glyn-Jones, who was the chief executive.

"The effect of the judgment of Commissioner O'Connor which brought about the dissolution of the P.A.T.A. has, we submit, had precisely the opposite effect from what the framers of the Combines Investigation Act intended. It has helped to build up a monopoly or semi-monopoly in the distribution of proprietary articles. The P.A.T.A. was organized to fight a growing monopoly in distribution, not to create one. Its object was to create fair competition and to prevent cutthroat competition, which was the chief weapon of the semi-monopolistic corporations who were endeavouring to control the distribution of proprietary articles.

The whole question of price maintenance in Great Britain is dealt with so clearly in the Wenham report under the Profiteering Act in 1929 that we shall take the liberty of quoting at considerable length from this report. After setting out the terms of the reference, the report continues as follows":—

Our discussions have led us to the view that there are two distinct headings under the subject of the fixing of retail prices which should properly be considered, and it is proposed to treat these more or less separately in this Report, as we believe it to be important for the proper understanding of the question that they should be somewhat clearly distinguished.

These headings may be set out as follows:—

A. Proprietary Articles—sold under trade-marks or trade names, or made under patents, these, in the case of medicines (a very numerous class) being subject to the Inland Revenue Stamp Duty.

> B. Goods of Common or General Use—controlled by associations or combinations, which fix prices at which retailers must sell or below which they must not sell to the public.

After some preliminary statements, the Report proceeds:—

> At the time when open competition in proprietary articles was in vogue, it was found that there was very keen cutting of prices between retailers themselves, proprietary articles being sold at a margin of profit which left less than a living wage to the retailer. "I might mention this is 26 years ago in England. It is not recent." Many of the smaller men were driven out of business, and this reacted on the manufacturer, who found the number of retailers who were prepared to push the sale, or even to stock his product, diminishing. In addition to this, it was found that the large stores were in the habit of selling proprietary articles at a price less, in some cases, than the actual cost to the small retailer. This was done in order to attract purchasers for other goods and not by way of legitimate competition, it sometimes being found that the proprietors of a large store after accomplishing their object ceased to stock the article any further, with the result that the manufacturer of it was "let down" and the small retailer had lost that part of his business without any corresponding advantage to the public. . . .
>
> The evidence has satisfied us that the price fixed by the manufacturer has, in almost every instance, been adhered to by retailers. We further find that the margin of profit allowed to the retailer is in most cases not so large as to enable him to cut the price even if he wished to do so, except at a loss, but that it is such as the experience of the particular trade has shown to be adequate to enable him to earn a fair remuneration for his services as a distributor. We may add that the evidence of the retailers whose evidence we have taken was generally to the effect that the margin of profit on goods for which retail prices are fixed is not so large as that which they would, on the average, obtain for uncontrolled goods, and that while they recognized that in most cases a not unreasonable profit accrued to them from the sale of these goods, they would have been glad to be allowed a more liberal scale of profit.

I may say it is identical in Canada; the margin was very very reasonable.

By Mr. Heaps:

Q. Who makes the margin?—A. The manufacturer fixes the retail price, and it was arrived at at a conference between the wholesaler and manufacturer.

Q. Can you have price maintenance without price fixing?—A. I think there is a distinction, Mr. Heaps. Price maintenance does not fix the price; all it fixes is the price which the distributor will get. It is very similar to a minimum wage.

Q. Can you have price maintenance without fixing prices?—A. Without fixing the manufacturers' price, yes.

Mr. Parry: It allows the manufacturer to be free to set his own.

The Witness: Yes; he is practically free to set whatever price he likes.

By Mr. Heaps:

Q. But suppose the manufacturer decides upon an exorbitant price, who would you have to step in to protect the public?—A. There is no danger of that. The manufacturer won't allow exorbitant prices. The manufacturer's whole desire is to have the wholesale price low. He would not agree to any high price.

Q. Suppose a manufacturer is charging too much to a retailer?—A. Well, price maintenance as we suggest, is not concerned with that at all, Mr. Heaps.

Mr. EDWARDS: It is a different matter altogether.

Mr. HEAPS: It is so closely interlocked you cannot separate them.

The WITNESS: I think you can separate them completely.

Mr. KENNEDY (*Peace River*): Do you suggest there will be competition between the manufacturers?

The WITNESS: Yes.

Mr. PARRY: You are allowing that?

The WITNESS: No change at all.

Mr. KENNEDY (*Peace River*): If one manufacturer is charging too much, the theory would be another manufacturer would come in and get the business.

The WITNESS: Exactly.

Mr. PARRY: You say you do not care whether he charges 25 cents, 50 cents or a dollar for a tube of toothpaste, as long as the distributor is allowed a proper return on his investment?

The WITNESS: Yes; it does not interfere with competition between the manufacturers a particle.

By Mr. Parry:

Q. You are referring now to a list of articles at various prices?—A. Yes. It simply provides—I think a minimum wage is the right way to term it—it provides the distributor with a minimum wage. It does not fix prices; it fixes the price spread which the distributor will get.

Mr. KENNEDY (*Peace River*): It would fix the price at which a commodity would be sold by various people.

The WITNESS: Yes.

By Mr. Heaps:

Q. Who would enforce the maintenance?—A. Well, I will come to that. The association, of course, would enforce price maintenance, because any retailer who sells below this fixed price won't get any more goods.

Q. That is the very thing we had so many complaints about just a few weeks ago, the refusal of wholesalers to supply retailers.—A. I thought you had support of price maintenance for wholesaler and retailer.

Q. I am in favour of something.—A. There is this thing that came out in the tobacco inquiry: Price maintenance does not mean a big profit for the retailer. In the tobacco price maintenance scheme, the retailer got very very little. In fact, their own stores were operating at a loss. I merely mention price maintenance does not necessarily mean the retailer is going to get a big profit at all. He hopes to get a reasonable living wage out of it, but there is not much danger of there being high prices under price maintenance.

By Mr. Edwards:

Q. Did I understand you to say when you spoke of price maintenance, you meant a minimum price at which the article might be sold?—A. Yes.

Q. Suppose the article is something that is worth a dollar?—A. Yes.

Q. The price is a dollar, and it is just possible the minimum price of that would be 85 cents. That is the minimum price at which it could be sold. Is that the case; I am not quite clear?—A. I do not know that I am perfectly clear either.

Mr. WILKINSON: Yes, I quite understand. That is the thing we are asking for.

The WITNESS: That is a P.A.T.A. principle.

By Mr. Edwards:

Q. That is a method of controlling a price that is fixed by the manufacturer, a method of maintaining the manufacturer's fixed price?—A. Not necessarily the maximum price.

Mr. Wilkinson: No, the minimum price below which nobody can sell or must sell.

The Witness: It says maximum as well as minimum.

Mr. Edwards: Merchandise of any sort is worth a fair price. That is your contention?

Mr. Wilkinson: Yes.

Mr. Edwards: If you are not getting a fair price for merchandise, the manufacturer of merchandise cannot pay a fair wage to his people?

The Witness: I do not think we go that far; all we say is, as distributors, we are entitled to a minimum price. We do not even question whether a fair price or not. Our retailer has to get a fair return for the services that he is performing to the public.

By Mr. Edwards:

Q. In other words, it costs you 25 per cent, 26 per cent, or 27 per cent to do business?—A. Yes.

Q. You must have a return of that much to break even?—A. Yes.

Q. And you must ask a fair price on top of that to do business?—A. Yes; the objection of the P.A.T.A. was $33\frac{1}{3}$ per cent.

The Chairman: Gross.

The Witness: Gross.

Mr. Edwards: Over 5 or 6 per cent of what it costs.

The Witness: Yes. Take $25,000 as the average amount invested in a drug store—we had an average of about $25,000—6 per cent on that would give us $1,500 a year, and as they say in England, and I think it will be the same here, "We further find that the margin of profit allowed to the retailer is in most cases not so large as to enable him to cut the price even if he wished to do so, except at a loss, but that it is such as the experience of the particular trade has shown to be adequate to enable him to earn a fair remuneration for his services as a distributor."

Now, that is the point. Then, they say "We may add that the evidence we have taken was generally to the effect that the margin of profit on goods for which retail prices are fixed, is not so large as that which they would on the average, obtain for uncontrolled goods."
I think the play of economic forces will compel that always to be the same.

Mr. Edwards: It is quite clear to me that a manufacturer would not set a price, his fair price as he would call it, would not be high, because a manufacturer would rather sell twelve articles at 75 cents, amounting to $9, than nine articles at $1.

The Witness: That is precisely it.

Mr. Edwards: That is the principle.

The Witness: The manufacturer would want to keep prices down.

Mr. Edwards: The manufacturer is necessarily interested in this. It is to his advantage?

The Witness: Yes.

Mr. Parry: He is in competition with other manufacturers himself?

The Witness: The pressure of the manufacturer is always to keep the retail price down, because he does not want—

Mr. HEAPS: Is there much competition to-day amongst wholesale drug companies in this country?

The WITNESS: Manufacturers?

Mr. HEAPS: Yes.

The WITNESS: There certainly is competition, very bitter competition.

Mr. EDWARDS: The wholesalers are pretty nearly all out of business?

The WITNESS: Yes, they would put the drug wholesalers out of business.

Mr. EDWARDS: I think Mr. Wilkinson will agree that the National Drug Company, who used to have branches all over, now have only one or two?

Mr. WILKINSON: They have not paid a dividend for years.

The CHAIRMAN: Will you proceed, Mr. Sparks?

The WITNESS:—

> It is, we submit, clear that a manufacturer of a proprietary article, in fixing a margin of profit to the retailer, must determine a rate which (1) will afford the retailer a sufficient inducement to stock and push the sale of his product on a sound basis of trading, and (2) will not be so high as to deter the public from purchasing, or to induce them to look out for a substitute which will equally serve the purpose at a lower price. We are satisfied that these considerations will effectively check any tendency to profiteering on the part of the retailers in the case of such proprietary goods.

The Committee had this to say in regard to the effect of price maintenance on the consumer:—

> Looking at the matter from the position of the consumer, i.e., the purchasing public, it would appear that the fixing of selling prices and margins of profit as between subsequent sellers and finally to the consumer cannot, in practice, be detrimental to the latter. The fixing of a fair margin of profit to the retailer is obviously beneficial to the latter, who it must be remembered represents a large and not unimportant element of the community. It also prevents unfair and ruinous competition, which it is submitted is not in the long run in the general interest. It must be remembered that the manufacturer is extremely unlikely to allow to the wholesaler or retailer such a large margin of profit as will (1) tend to check the sale of his products, or (2) deprive him of a proportion of the eventual profit which he might have retained for himself. . . . . . .
>
> Our view, then, in regard to the general question, is that the system of fixing retail prices as between the four classes referred to above, viz. (1) the manufacturer, (2) the wholesaler, (3) the retailer, and (4) the public, is (subject to the general proviso stated hereafter) to the advantage of the latter, in that, (1) in times of scarcity it does in fact check the undue inflation of prices, (2) in times of plenty it tends to ensure to all classes, including labour employed in manufacture and distribution, a fair rate of remuneration for the services respectively performed by them.

The later report made by a Committee appointed by Lord Chancellor Sankey to inquire into matters concerning restraint of trade covers much the same ground, pointing out the injury to manufacturer, wholesaler and retailer of extreme price-cutting. In regard to the effect on the consumer the report states:—

Sankey Report, Page 18, Section 38:—

> The position of the consumer in relation to price maintained goods is similar to that of the retailer in so far as he can refuse to buy any

> particular brand of goods. If a man buys a particular brand at a particular price he thereby shows that in all the circumstances he prefers that article at that price to other branded or unbranded goods. The question whether his preference is well founded, and whether the goods are reasonable in price having regard to costs of production and distribution, is of course open. What appeals to him is the quality of the goods which he associates with the brand. We were informed that a point which has also told in favour of the brand system in recent years is the careful and hygienic way in which many branded articles are now packed.
>
> Another point which was put to us by several witnesses relates to the psychology of the consumer in relation to price cutting. We were told that where the prices fixed for branded goods are not enforced consumers lose confidence in the quality of the goods, in the reasonableness of the price ordinarily charged or in the good faith of the manufacturer. Conversely, it was stated that consumers are very ready to buy price maintained goods provided they regard the price as reasonable, and that they appreciate the knowledge that they can buy similar goods at the same price wherever they happen to be. The price maintenance system, we were told, tends to promote an atmosphere of harmony between the retailer and his customer and to make selling easy and expeditious.

The whole report is an exceedingly interesting document, going at considerable length into all details of the price maintenance system. It closes with the following general conclusions:—

> (*a*) We hold that the ordinary right of freedom to contract ought not to be withdrawn without some compelling reason.
>
> (*b*) We do not regard the price maintenance system as free from disadvantages from the public point of view, but we are not satisfied that if a change in the law were made there is any reason to think that the interests of the public would be better served.

The position of the wholesaler under present day merchandising conditions has become increasingly difficult. The wholesaler is frequently described as a middleman whose elimination would be desirable in the interest of low prices. It is undoubtedly true that in some branches of trade the wholesaler has almost disappeared.

It should be kept in mind, however, that the functions which the wholesaler performed in earlier days when goods followed the channel of manufacturer to wholesaler to retailer to consumer must still be performed by someone. The wholesaler as a separate unit may be eliminated, but the functions which he performed cannot be eliminated. Many manufacturers are now selling direct to large unit retailers, which means that the manufacturer is doing his own wholesaling. Many retailers are buying direct from manufacturers in larger quantities than they would have bought from wholesalers. In this way the retailer is doing his own wholesaling.

TABLE NO. 13

NATIONAL DRUG AND CHEMICAL COMPANY OF CANADA

SHOWING AVERAGE NUMBER OF ITEMS ON EACH INVOICE AND AVERAGE VALUE OF EACH ITEM

(P. A. T. A. Evidence, Pages 37–38)

Branch	Average Number of Items	Total Value	Average Value per Item
		$	$
Halifax	5·0	10 77	2 15
St. John	5·39	13 17	1 45
Montreal	4·0	14 36	3 59
Ottawa	4·66	7 01	1 52
Toronto	7·3	15 99	2 19
Hamilton	7·1	12 88	1 80
London	7·5	12 28	1 64
Winnipeg	5·19	14 58	2 80
Regina	6·0	16 22	2 70
Saskatoon	6·5	13 36	2 55
Calgary	7·25	12 80	1 76
Edmonton	7·9	17 11	2 37
Vancouver	5·27	11 12	2 11
Victoria	3·25	5 86	1 80

The above was recently shown to one of the branch managers of The National Drug & Chemical Company, who states that this would fairly represent present day conditions.

In a general way in the drug trade the wholesaler continues to perform a very important function. It is impossible to say precisely the percentage of the total distribution which is handled by the wholesale trade, but it is undoubtedly a very large percentage of the total volume. The reason for this is the large variety of articles which the retail druggist must carry in stock. The McGregor Report states that even the smallest drug stores must carry more than 3,500 different articles in stock, while the larger stores carry from 8,000 to 13,000 articles. In the evidence given before Commissioner O'Connor, The T. Eaton Company stated they were carrying in their drug department more than 22,000 different articles. In order to keep a well assorted stock, the average retail druggist must buy in small quantities. The McGregor Report quoted the following as an experience in the United States, and doubtless the same would hold good in Canada:—

> The Committee on proprietary goods of the National Wholesale Druggists' Association of New York investigated this problem in 1925, and found as follows:—

City—$1.00	articles	80	per cent	bought in	quarter doz. or less.
.75	"	80	"	"	"
.50	"	60	"	"	"
.25	"	50	"	"	"
.10	"	12	"	"	"
Country—$1.00	articles	60	per cent	bought in	quarter doz. or less.
.75	"	55	"	"	"
.50	"	40	"	"	"
.25	"	25	"	"	"
.10	"	5	"	"	"

Sir William Glyn-Jones in his evidence given before Commissioner O'Connor put in the following figures as representing average quantities and values of sales by the National Drug and Chemical Company.

Probably the most complete study of price maintenance which has ever been made has been published under the title of "Price Cutting and Price Maintenance," a study in economics by Professor Edwin R. A. Seligman, LL.D., of Columbia University, and Professor Robert A. Love, Ph.D., College of City of New York. This book of nearly 600 pages reviews in an unbiased way every argument both for and against the principle of price maintenance, and concludes its general study with a summary from which we extract the following, page 267:—

> So-called cutthroat competition is not true competition; it is brute competition. In the first place, the avowed object of cutthroat competition is to cut the throat of the competitor. . . . Cutthroat competition is designed to remove the rival entirely from the arena in order that the successful competitor may remain in control. Cutthroat competition results in monopoly. The temporary benefit to the consumer from the reduction in price will in the end be more than outweighed by the evils of monopoly. Cutthroat competition, therefore, is pseudo-competition, not real competition.
>
> The producer of a commodity may cut prices or indulge in practices which, while perhaps actuated by the determination to achieve a monopoly, are nevertheless motivated by the desire to outwit his rival and to capture a larger share of the market. In this endeavour, however, he does not proceed, as under the regime of true competition by reducing his costs and giving the consumer a part at least of the benefit; rather does he seek to deceive or to decoy the consumer into the belief that the latter is getting something which is not actually the case. . . . In every such case—and they might be multiplied—the essential elements underlying the theory of true competition are absent. . . . He benefits himself, but he does not benefit anyone else.
>
> In other words, true competition is beneficial competition. It profits the producers as a whole and it benefits the consumers as a whole. Pseudo-competition does not benefit the consumers at all and, while it may for the time being advantage some of the producers, it injures the producers as a whole. True competition is mutual and reciprocal in its benefits; pseudo-competition not only fails to benefit the consumer, but it hits the producer below the belt. True competition makes for progress, pseudo-competition makes for retrogression and decay. True competition is constructive, pseudo-competition is destructive.
>
> What we have termed pseudo-competition is in common parlance often called unfair competition. The word "unfair" connotes something immoral, something unethical. In the long run nothing can be morally right unless it is economically sound; for the roots of both ethics and economics are to be found in social considerations.
>
> We are accordingly led to the conclusion that the evil with which price maintenance seeks to cope, namely, the evil of certain forms of cut prices, has no justification in either economics or ethics. Price maintenance as a general social policy is to be judged not by the seeming antagonism between consumers as a class and producers as a class, nor, on the other hand, by the ostensible conflict between the two sections of the producing class, the manufacturers and the retailers. For, in the first place, there is no such antagonism between producers and consumers. Consumers themselves will in the long run be benefited by the adoption of price maintenance in the sense that, as we have seen, the welfare of the consumer depends ultimately on the prosperity of the producer. And in the second place, there is no such antagonism between manufacturers as a class and retailers as a class. The real conflict is found in the atti-

tude of the few retailers who think that their interests would be jeopardized by the adoption of price maintenance, and whose success at present is being achieved at the cost of other more fair-minded competitors. When we consider that against this comparatively limited class stand the bulk of the retailers, the mass of the manufacturers and the permanent interests of the consumers, we are forced to the conclusion that in principle at least price maintenance is a logical inference from the doctrine of true competition, and that the denial of price maintenance denotes a perpetuation of the pseudo-competition from which modern American life is suffering. Those forms of price cutting which involve the "leader" policy, the sale below cost, and the necessity of devious methods of securing supplies from others than the producers themselves, however, profitable to the individual, are open to criticism as constituting destructive and not constructive competition, as being economically unsound and therefore ethically unjust. Price cutting of this kind, in short, is a form of unfair competition; price maintenance is a step toward fair competition.

Mr. Justice Oliver Wendell Holmes, of the United States Supreme Court, December 9, 1929:—

> I cannot believe that in the long run, the public will profit by this course, permitting knaves to cut reasonable prices for mere ulterior purposes of their own and thus to impair, if not to destroy, the production and sale of articles which it is assumed to be desirable the people should be able to get.

Lord Parker, quoted in "Chain Stores and the Drift Toward Monopoly in the Retail Field." Page 11:—

> In considering the interests of consumers it is impossible to disregard the interests of those who are engaged in such production and distribution. It can never be in the interests of consumers that any article of consumption should cease to be produced and distributed, as it certainly would be unless those engaged in its production and distribution obtain a fair remuneration for the capital employed and the labour expended.

Mr. Justice Brandeis, quoted in "Chain Stores and the Drift Toward Monopoly in the Retail Field." Page 10:—

> When a trade-marked article is advertised to be sold at less than the standard price, it is generally done to attract business to the particular store by the offer of an obviously extraordinary bargain. It is a bait—called by the dealers a "leader"; but the cut-price article would more appropriately be termed a "mis-leader," because ordinarily the very purpose of the cut-price is to create a false impression . . . . . The evil results of price-cutting are far reaching. It is sometimes urged that price-cutting of a trade-marked article injures no one; that the producer is not injured, since he received his full price in the original sale to jobber or retailer; that the retailer cannot be harmed, since he has cut the price voluntarily to advance his own interests; that the consumer is surely benefited because he gets the article cheaper. But this reasoning is most superficial and misleading . . . . . . The process of exterminating the small independent retailer already hard pressed by capitalistic combinations would be greatly accelerated by such a movement. Already the displacement of the small independent business man by the huge corporation with its myriad of employees, its absentee ownership, and its financial control, presents a grave danger to our democracy. The social loss is great; and there is no economic gain. "But the process of capitalizing

> free Americans is not an inevitable one. It is not even in accord with the natural law of business. Shall we, under the guise of protecting competition, further foster monopoly by creating immunity for the price-cutters? Americans should be under no illusions as to the value or effect of price-cutting. It has been the most potent weapon of monopoly—a means of killing the small rival to which the great trusts have resorted most frequently. It is so simple, so effective. Far-seeing organized capital secures by this means the co-operation of the short-sighted unorganized consumer to his own undoing. Thoughtless or weak, he yields to the temptation of trifling immediate gain; and, selling his birthright for a mess of potage, becomes himself an instrument of monoply.

From "The Chemist and Druggist," November 19, 1927:

> *Re* Palmolive Cases—British Court of Appeal.
>
> The Master of the Rolls, in giving judgment, said that after entering into the price-fixing agreement the appellant found he was able to obtain, and did obtain, soap from other sources than the plaintiff company. But it was clear than an agreement of price maintenance was not necessarily bad, and slight evidence only was needed to justify it from the public point of view. (His Lordship referred to previous decisions bearing on the case.) Of what was reasonable between themselves the Court regarded the parties as the best judges. The agreement did not enforce a general restraint. It applied only to the proprietary articles sold by the plaintiff company, and there was no evidence to show that the appellant would suffer any material inconvenience if he never sold another cake of Palmolive soap. At least the appellant had a choice. If he did determine to sell, why should not the matter of price be decided according to the agreement? If the respondents fixed a price so high as to preclude a sale of their goods, that would be their loss. There was no restriction upon the appellant's selling other people's soap. Different considerations might well apply if the appellant was bound by contract to buy definite amounts of the respondents' goods, and precluded from buying the goods of others. It was impossible to hold that the contract was unreasonable, and the appeal must be dismissed.

We would respectfully suggest that the machinery set up to administer the Combines Investigation Act is entirely inadequate. The history of the operation of this Act and its relationship to the P.A.T.A. affords a convincing argument in favour of a more adequate and satisfactory machinery both for investigation and decision in matters in regard to restraint of trade.

We would suggest the setting up of a board along the general lines of the Board of Railway Commissioners, composed of men with business experience or having a knowledge of economics, whose judgment would command the respect of a business community, and that adequate machinery for investigation should be organized by such a board. We would further suggest such amendment to the Combines Investigation Act as would make legal agreements between manufacturers and traders for the maintenance of fixed resale prices when such agreements have been approved by the board above suggested."

I have a note here that might be very interesting, the average number of persons per drug store. I have not dealt with the reports made by Commissioner O'Connor and Mr. McGregor; I do not think there is any use threshing old straw, but they did intimate that there were too many drug stores in Canada. The average number of persons to each drug store in Canada is 2,871, and the average number in the United States is 2,107.

By the Chairman:

Q. Will you repeat that, Mr. Sparks, please?—A. The average number of persons to each drug store in Canada is 2,871, and the average number of persons to each drug store in the United States is 2,107.

By Mr. Parry:

Q. What year were those figures for?—A. That is 1930.

The CHAIRMAN: That is the census?

The WITNESS: I will just file those figures.

The CHAIRMAN: They will be incorporated in the record.

GENERAL DRUG STORE STATISTICS

Population of Canada (estimated) 1930..		10,215,571
Number of Drug Stores in Canada, 1930..		3,559
Average number of persons to each drug store		2,871
	1925	1930
Population..	9,364,000	10,215,571
Number of Retail Stores	129,684	125,002
Average number of persons to each store..	72	81
Average number of families to each store.. ..	16	17.5
(Based on average family of 4.62 persons, according to Q.B.S. figures for 1921 census.)		
U. S. A.		
Population of U. S. A. (1930)..		122,775,046
Number of Drug Stores (1930)..		58,258
Average number of persons to each drug store..		2,107

The CHAIRMAN: Now gentlemen, are there any further questions to ask Mr. Sparks?

By Mr. Edwards:

Q. I have one question. It may not be relevant to what he has already given us, but it is with reference to advertising. I was looking through those files that he presented but I did not see it there. However, some time ago there was a large chain store that used to advertise themselves as "The Enemy of the Drug Trust." That was the slogan that they had. Was there ever such a thing as the "Drug Trust"?—A. I think you are referring to Mr. Tamblyn's advertising previously to the P.A.T.A.

Q. It was a large chain store at any rate?—A. Yes.

Q. To your knowledge, was there any such thing as a "Drug Trust," Mr. Wilkinson?—A. I am quite sure there has not been. I do not know what you mean by "trust." There has never been any such thing in my lifetime.

Mr. EDWARDS: The inference was that there was such a thing as a trust and they were the individuals who were out to fight this combine. That is what I would take out of it. Was there any such a thing as a drug combine?

Mr. WILKINSON: Foolishness.

The WITNESS: Mr. Chairman, the druggists of this country would welcome a most complete investigation of their business, a complete investigation of their operations under the P.A.T.A.; they would welcome the widest kind of enquiry because they are satisfied that their case is sound. There is no idea of burying anything, or doing anything secretly or privately to injure the public. The widest possible investigation would be most desirable to the druggists of Canada.

By Mr. Kennedy (Winnipeg):

Q. Mr. Sparks, what effect does this price cutting have on the wages of those employed in the retail drug trade?—A. Well, I have no examples to submit of cutting of wages but that sort of thing is bound to work out, in drugs or in anything else. If a producer is driven down below an economic price then

he will follow the line of least resistance and cut wages. We do not make any allegations or charges against the manufacturers having done that, but on general principles that is the effect of price cutting.

Mr. EDWARDS: I think Mr. Kennedy referred to the retailers if they could not make money.—A. They will cut wages, of course they will.

By Mr. Kennedy (Winnipeg):

Q. Has there been any cutting of wages, so far as you know—A. Registered druggists are working for $15 and $20 a week, professional men.

Q. They had to take a University course?—A. Oh yes.

Q. Of how many years?—A. Three years. Yes, the trade is in a desperate condition.

Mr. WILKINSON: And these men are not working 40 hours a week; they are working more nearly 70, 10 hours a day 7 days a week.

The WITNESS: The fact that we have referred to two English reports which show identical conditions would, I think, lead to the conclusion that our statement is correct, that it is this thing that has affected the drug trade. The depression has not affected the price perhaps as much as some others. In fact, some people went from the doctor to the drug store. They possibly could not afford to have a doctor and they went to the drug store and bought proprietary medicines, so that the bigger part of the desperate condition of the retail druggist is due, we are convinced, to unfair price cutting; and we are convinced we have an honest, straight-forward method of carrying out business, and that is what we ask this committee in its deliberation to recommend to parliament, some action which will make possible the elimination of these things we complain of and what we believe to be a public evil.

The CHAIRMAN: Well now, that is all to-day We will adjourn until 11 o'clock to-morrow morning to take up the report of the auditors on department stores.

The committee adjourned at 5.40 p.m. to resume on Tuesday, June 5th, at 11 a.m.

HOUSE OF COMMONS, ROOM 368, June 5, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 a.m., Hon. H. H. Stevens, presiding.

Mr. Norman Sommerville, K.C., and Mr. W. W. Parry, K.C., of Toronto, appeared as counsel for the committee.

The CHAIRMAN: Order, gentlemen. The minutes of yesterday's meetings indicate the witnesses heard and certain exhibits filed. We will declare them approved.

Now, Mr. Sommerville, who is your first witness?

Mr. SOMMERVILLE: I propose to proceed with the consideration of the report of the auditors appointed to investigate department stores. To-day we will commence with Woodward Stores Limited, in Vancouver, Spencers Limited, in Vancouver, followed by the Army & Navy Stores of Regina. By process of an examination of these organizations which are smaller than several of the big ones, we will get a plan of operation, and in this way know better what to look for in sizing up the situation of the bigger accounts when we reach them.

The CHAIRMAN: Each member of the committee is supplied, I believe, with a series of printed forms that will be followed in the evidence by the witness, Mr. Nash and his assistants, as we proceed.

Mr. SOMMERVILLE: There are certain key statements that will be referred to and the same system will be followed throughout.

ALBERT E. NASH, called and sworn.

J. GRANT GLASSCO, called and sworn.

By Mr. Sommerville:

Q. Mr. Nash, you are a member of the firm of Clarkson, Gordon, Dilworth, Guilfoyle & Nash?—A. Yes.

Q. Your firm is a firm of chartered accountants and auditors?—A. Yes.

Q. And at the request of the committee you have inquired into certain operations of the department stores in Canada?—A. Yes.

Q. You have now before you the report on the Woodward Stores Limited, in Vancouver?—A. Yes.

Q. Will you just present to the committee the result of your inquiry there, upon the scope outlined to you by the committee?—A. In the first place, I would like to say this, that in making our investigation of Woodwards and other department stores we had in mind particularly certain major phases. Firstly we had in mind the price spreads between the cost of goods purchased, and the price at which those were sold to be public; that is, the percentage of spread to the cost and the percentage to the selling; secondly, the expenses incidental to the selling and distribution of those goods; thirdly, the wages and salaries paid by these companies in carrying on their business; and fourthly, the capital set up, the ownership and the resulting profits or losses to the ownership of these companies. The statements are so arranged that I think we can follow those four phases without very much difficulty.

Q. Your statements will also indicate the growth and development of this method of merchandising?—A. They will indicate the growth and development of the merchandising, and the growth and development of the company itself—the growth of its capital, the growth of its own worth, the growth of its business.

Q. That growth is given over a period of what?—A. Ten years, generally.

Q. Generally speaking, a ten-year period?—A. Yes.

Q. With a reference to the earlier history, in order that one might get a picture of the whole situation?—A. Yes; we thought it proper and fair to take ten years, because five years would only have brought us back to the commencement of what is commonly called the depression period. We therefore went back another five years until we got into what is known as the period of expansion.

WOODWARD STORES LIMITED

Balance Sheets—For Eleven Years Ending 31st January, 1934

	—	As at 31st January, 1934	As at 31st January, 1933	As at 31st January, 1932	As at 31st December 1930
	Assets	$ cts.	$ cts.	$ cts.	$ cts.
1	Cash in Bank and on hand	579,959 21	375,696 62	564,593 37	523,421 31
2	*Less*—Overdrafts	**32,254 99**	....	**323,434 78**	**7,682 37**
3	Outstanding Cheques	**50,057 40**	**185,598 21**	....	**560,277 41**
4		497,646 82	190,098 41	241,158 59	**44,538 47**
5	Marketable Securities—Bonds, etc., at cost	1,175,407 55	1,140,977 36	689,354 05	292,384 85
6	Accounts Receivable	102,296 24	48,254 00	32,811 22	41,181 90
7	Lien Accounts	56,367 86	62,069 85	83,877 98	111,750 92
8	Merchandise on hand	1,648,804 45	1,690,514 16	1,890,602 29	2,048,807 27
9	Total Current Assets	3,480,522 92	3,131,913 78	2,937,804 13	2,449,586 47
	Buildings, Plant and Equipment:—				
10	Buildings and Real Estate—at cost	2,458,600 00	2,458,600 00	2,385,000 00	2,394,000 00
11	Furniture and Fixtures	235,812 25	232,900 22	232,492 65	219,336 23
12	Garage Equipment	7,043 54	7,043 54	6,769 54	4,097 91
13	Plant, Elevators, Heating, Refrigeration, etc.	295,897 73	286,897 73	272,593 56	269,238 56
14	Automobile Equipment—Depreciated value	7,650 41	8,243 21	9,485 21	11,000 00
15		3,005,003 93	2,993,684 70	2,906,340 96	2,897,672 70
16	Investments in other Companies	39,907 70	34,200 00	34,200 00	34,200 00
	Due from Shareholders and Employees:—				
17	Shareholders—Drawing Accounts	43,712 21	30,604 44	15,709 02	4,705 85
18	Special Advances to Shareholders	....	....	201,108 75	201,108 75
19	Employees—re Stock Purchases	56,859 20	41,974 15	51,059 25	....
20	C. Woodward—Trust Account	7,955 08	21,559 26	....	....
21	Prepaid Expenses—Taxes and Insurance	66,038 77	66,500 00	....	....
22	Goodwill	....	....	....	137,793 29
23		6,699,999 81	6,320,436 33	6,146,222 11	5,725,067 06
	Liabilities				
24	Accounts Payable	203,244 79	226,805 10	204,202 69	194,420 33
25	Bills Payable	8,237 12	9,640 19	25,268 08	72,668 50
26	Salaries and Wages accrued	5,617 56	3,255 08	....	....
27	Provision for Income Taxes	160,000 00	....	....	....
28	Total Current Liabilities	377,099 47	239,700 37	229,470 77	267,088 83
	Reserves:—				
29	For Depreciation on Buildings, Plant and Equipment	581,829 19	494,317 47	408,392 04	327,316 34
30	For Contingencies	30,000 00	30,000 00	30,000 00	30,000 00
31	For Accounts Receivable and Liens	29,201 86	28,043 56	30,891 39	27,542 00
32	For Mail Order Insurance	2,500 00	1,000 00	1,000 00	1,000 00
33	For Marine Insurance	74,986 98	73,466 96	70,950 34	68,619 89
34	For Stock Depreciation	75,000 00	75,000 00	75,000 00	....
35		793,518 03	701,827 99	616,233 77	454,478 23
36	Mortgage Loans and Agreements for Sale	....	....	....	3,500 00
37	Notes—C. Woodward Limited	....	....	....	....
38	Share Capital	5,000,000 00	5,000,000 00	5,000,000 00	5,000,000 00
39	Surplus	529,382 31	378,907 97	300,517 57	....
		6,699,999 81	6,320,436 33	6,146,222 11	5,725,067 06

Losses are shown in black type.

WOODWARD STORES LIMITED

Balance Sheets—For Eleven Years ending 31st January, 1934

As at 31st January, 1930	As at 31st January, 1929	As at 31st January, 1928	As at 31st January, 1927	As at 31st January, 1926	As at 31st January, 1925	As at 31st January, 1924	
$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
309,542 07	268,457 45	290,278 37	58,019 77	29,189 03	82,255 18	32,237 16	1
...	...	...	**12,167 69**	**27,666 70**	...	...	2
339,726 70	**271,560 86**	**305,737 71**	**311,165 62**	**469,632 13**	**415,934 36**	**200,277 47**	3
30,184 63	**3,103 41**	**15,459 34**	**265,313 54**	**468,109 80**	**333,679 18**	**168,040 31**	4
197,036 42	197,036 42	...	...	450 00	134,506 48	84,129 61	5
111,708 24	144,696 22	174,507 34	87,376 50	32,221 03	72,755 53	68,090 18	6
122,396 43	...	...	...	...	...	...	7
1,839,215 90	1,406,631 46	1,183,213 69	1,079 322 70	887,026 91	909,530 09	822,229 41	8
2,240,172 36	1,745,260 69	1,342,261 69	901,385 66	451,588 14	783,112 92	806,408 89	9
2,235,000 00	1,777,000 00	1,613,000 00	1,313,000 00	1,313,000 00	917,000 00	735,000 00	10
161,918 12	142,520 66	132,781 21	114,186 53	66,436 11	40,080 01	30,626 97	11
...	...	...	...	...	...	...	12
208,322 71	149,613 47	149,613 47	129,478 65	129,478 65	62,099 39	55,427 78	13
10,000 00	7,318 00	7,129 60	8,912 00	7,000 00	7,000 00	7,500 00	14
2,615,240 83	2,076,452 13	1,902,524 28	1,565,577 18	1,515,914 76	1,026,179 40	828,554 75	15
34,200 00	34,200 00	34,200 00	...	5,500 00	5,500 00	6,000 00	16
...	...	...	...	...	...	...	17
...	...	...	...	...	...	...	18
...	...	...	...	...	...	...	19
...	...	...	...	...	...	...	20
...	...	...	...	...	...	1,000 00	21
...	...	...	...	...	...	...	22
4,889,613 19	3,855,912 82	3,278,985 97	2,466,962 84	1,973,002 90	1,814,792 32	1,641,963 64	23
204,384 27	233,216 89	379,849 93	372,682 09	185,175 04	175,663 94	269,734 97	24
25,731 56	39,805 23	22,075 91	22,654 80	27,088 28	26,458 59	11,616 42	25
...	...	...	...	...	...	...	26
...	...	...	...	...	...	...	27
230,115 83	273,022 12	401,925 84	395,336 89	212,263 32	202,122 53	281,351 39	28
256,846 62	216,737 54	164,149 13	113,034 66	72,589 89	36,923 42	16,605 48	29
26,000 00	10,000 00	5,000 00	3,000 00	3,000 00	3,000 00	3,000 00	30
...	...	...	...	...	...	...	31
...	...	...	...	...	...	...	32
...	...	...	...	...	...	...	33
...	...	...	...	...	...	...	34
276,846 62	226,737 54	169,149 13	116,034 66	75,589 89	39,923 42	19,605 48	35
35,500 00	35,000 00	28,555 57	11,111 12	43,334 67	115,334 00	27,500 00	36
...	...	...	...	119,186 23	119,186 23	119,186 23	37
1,626,666 00	1,250,000 00	1,250,000 00	1,000,000 00	1,000,000 00	1,000,000 00	1,000,000 00	38
2,720,484 74	2,071,153 16	1,429,355 43	944,480 17	522,628 79	338,226 14	194,320 54	39
4,889,613 19	3,855,912 82	3,278,985 97	2,466,962 84	1,973,002 90	1,814,792 32	1,641,963 64	40

WOODWARD STORES LIMITED

Operating Accounts—For Ten Years Ending 31st January, 1934

	—	Year ending 31st January, 1934	Year ending 31st January, 1933	13 months ending 31st January, 1932	11 months ending 31st December, 1930
		$ cts.	$ cts.	$ cts.	$ cts.
1	Sales	7,836,838 00	7,991,477 31	10,053,655 52	9,146,934 63
	Cost of Sales:—				
2	Inventory at beginning of Period	1,690,514 16	1,890,602 29	2,048,333 05	1,839,215 90
3	Purchases	5,855,248 54	5,738,395 33	7,608,775 43	7,266,838 21
4		7,545,762 70	7,628,997 62	9,657,108 48	9,106,054 11
5	Inventory at end of Period	1,648,804 45	1,690,514 16	1,890,602 29	2,048,333 05
6		5,896,958 25	5,938,483 46	7,766,506 19	7,057,721 06
7	Gross Profit	1,939,879 75	2,052,993 85	2,287,149 33	2,089,213 57
8	*Add*—Discount on Purchases	83,479 50	84,713 55	117,507 58	114,929 68
9		2,023,359 25	2,137,707 40	2,404,656 91	2,204,143 25
	Expenses:—				
10	Advertising	107,668 97	109,560 62	132,450 16	118,112 23
11	Alterations	1,672 89	5,084 97	10,260 63	24,848 14
12	Catalogue	19,211 90	21,066 33	23,339 49	22,589 15
13	Contingent	....	....	....	9,790 03
14	Delivery	3,466 32	4,929 33	1,815 42	9,481 20
15	Garage	....	....	2,402 91	298 06
16	Depreciation	90,020 62	88,067 43	82,490 70	76,781 79
17	Donations	6,978 95	7,300 34	6,028 01	6,148 50
18	Insurance	11,770 88	16,765 46	25,371 22	15,755 68
19	Interest	1,741 63	1,715 54	3,953 10	7,532 36
20	Licences—Trade	2,326 50	4,703 00	....	....
21	Light, Fuel, Water and Telephones	....	....	49,274 46	34,394 89
22	Light and Heat	33,538 40	38,868 05	....	....
23	Mail Order Delivery	11,951 49	9,669 56	11,487 26	9,244 50
24	Mail Order Expense	9,531 63	11,847 79	15,221 31	10,467 89
25	Maintenance	41,776 66	48,579 68	48,112 06	48,093 20
26	Life Insurance—Employees	1,067 30	980 59	....	....
27	Office Expense	2,302 40	1,652 15	5,289 76	2,427 34
28	Post Office	**1,015 08**	968 22	....	....
29	Refrigeration	1,506 54	199 55	582 47	....
30	Rejected Cheques	1,316 81	1,477 65	3,271 50	2,258 38
31	Rent, Charles Woodward	15,000 00	15,000 00	15,000 00	15,000 00
32	Shipping	7,605 61	34 52	163 84	....
33	Sundry Expenses	13,483 30	6,383 75	12,076 57	2,233 39
34	Taxes—Municipal	75,897 54	77,337 73	73,787 26	66,080 87
35	Travelling	81 42	1,670 27	4,419 26	1,793 09
36	Workmen's Compensation Board Assessment	4,217 55	1,796 20	....	....
37	Wrapping	73,167 70	80,111 09	80,136 30	56,486 39
38	Wages, Salaries and Bonuses	952,326 69	1,009,805 09	1,212,371 01	974,722 59
39		1,488,614 62	1,565,574 91	1,819,304 70	1,514,539 67
40	*Operating Profit—Forward*	534,744 63	572,132 49	585,352 21	689,603 58

Losses are shown in black type.

WOODWARD STORES LIMITED

Operating Accounts—For Ten Years Ending 31st January, 1934

Year ending 31st January, 1930	Year ending 31st January, 1929	Year ending 31st January, 1928	Year ending 31st January, 1927	Year ending 31st January, 1926	Year ending 31st January, 1925	Total for 10 years ending 31st January, 1934	
$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
9,717,573 98	9,235,446 82	8,683,617 07	7,900,436 25	6,385,268 05	5,479,935 41	82,431,183 04	1
1,406,631 46	1,183,213 69	1,079,322 70	887,026 91	909,530 09	822,229 41	822,229 41	2
8,028,214 19	7,425,360 04	7,032,836 64	6,545,064 56	5,260,575 18	4,630,599 16	65,391,907 28	3
9,434,845 65	8,608,573 73	8,112,159 34	7,432,091 47	6,170,105 27	5,452,828 57	66,214,136 69	4
1,839,215 90	1,406,631 46	1,183,213 69	1,079,322 70	887,026 91	909,530 09	1,648,804 45	5
7,595,629 75	7,201,942 27	6,928,945 65	6,352,768 77	5,283,078 36	4,543,298 48	64,565,332 24	6
2,121,944 23	2,033,504 55	1,754,671 42	1,547,667 48	1,102,189 69	936,636 93	17,865,850 80	7
117,330 92	113,792 89	101,579 33	100,169 30	79,120 08	73,115 92	985,738 75	8
2,239,275 15	2,147,297 44	1,856,250 75	1,647,836 78	1,181,309 77	1,009,752 85	18,851,589 55	9
121,490 60	117,137 62	113,370 50	102,753 43	88,889 76	80,588 02	1,092,021 91	10
7,807 58	13,052 45	4,949 26	11,004 60	16,324 08	16,899 72	111,904 32	11
19,988 92	23,995 70	22,459 98	19,704 78	17,716 34	13,388 54	203,461 13	12
8,402 35	4,402 55	7,860 44	2,182 07	2,977 33	....	35,614 77	13
8,408 02	8,909 80	11,085 50	12,520 42	12,895 18	10,477 51	86,689 67	14
....							15
69,144 13	55,725 01	52,896 87	42,672 77	35,666 47	20,317 94	613,783 73	16
3,910 50	6,142 50	5,865 09	805 00	1,880 00	1,661 50	46,720 39	17
15,308 63	13,061 41	15,938 43	11,505 34	10,781 35	9,522 37	145,780 77	18
11,725 42	9,675 11	9,074 71	16,242 35	21,431 43	17,347 23	100,438 88	19
....	....	....	....	....	....	7,029 50	20
31,501 93	30,685 91	27,844 58	27,057 67	17,633 82	16,843 03	235,236 29	21
....	....	....	....	....	....	72,406 45	22
9,324 98	8,362 35	7,636 33	5,573 25	4,936 01	2,909 66	81,095 39	23
11,999 32	5,678 64	7,414 32	6,389 62	4,135 87	6,004 24	88,690 63	24
40,557 34	34,254 29	30,643 58	26,545 42	23,295 61	26,912 17	368,770 01	25
....	....	....	....	....	....	2,047 89	26
2,959 67	2,765 86	4,084 28	6,024 97	3,287 16	3,209 39	34,002 98	27
....	....	....	....	....	....	**46 86**	28
837 15	224 88	....	....	....	....	3,350 59	29
1,853 50	2,388 22	1,789 18	2,170 13	1,002 44	629 98	18,157 79	30
15,000 00	15,000 00	15,000 00	15,000 00	15,000 00	15,000 00	150,000 00	31
....	....	....	....	....	....	7,803 97	32
7,164 87	6,809 10	1,993 94	3,315 02	3,222 60	6,216 21	62,898 75	33
50,557 05	41,531 27	32,503 02	31,472 33	26,711 36	25,173 26	501,051 69	34
3,875 06	5,021 52	3,094 14	1,868 57	3,187 97	3,091 64	28,102 94	35
....	....	....	....	....	....	6,013 75	36
64,170 83	56,085 79	40,897 20	41,132 86	29,576 25	26,754 40	548,518 91	37
1,010,413 04	929,196 42	850,516 85	756,250 12	589,934 49	498,276 50	8,783,812 80	38
1,516,400 89	1,390,106 40	1,266,918 20	1,142,190 72	930,485 52	801,223 31	13,435,358 94	39
722,874 26	757,191 04	589,332 55	505,646 06	250,824 25	208,529 54	5,416,230 61	40

WOODWARD STORES LIMITED

PROFIT AND LOSS ACCOUNTS—FOR THE TEN YEARS ENDING 31ST JANUARY, 1934

	—	Year ending 31st January, 1934	Year ending 31st January, 1933	13 months ending 31st January, 1932	11 months ending 31st December 1930
		$ cts.	$ cts.	$ cts.	$ cts.
1	*Operating Profit—Forward*	534,744 63	572,132 49	585,352 21	689,603 58
	Concessions:—				
2	Bakery				
3	Confectionery	423 69			
4	Fuel	1,348 65	1,489 61	59 97	
5	Gramophones and Radios	8,312 21	11,859 71	22,318 28	21,917 30
6	Hosiery Repairs	86 11			
7	Home Electrical Appliances		415 29	63 22	
8	Eureka Sales			703 60	1,516 88
9	Music	1,023 52	968 29	1,288 89	1,235 67
10	Novelties	11 08			
11	Optical	4,101 75	3,341 18	4,405 51	3,607 23
12	Pet Shop	425 00			
13	Photo Snaps	615 44	585 91		
14	Picture Framing				
15	Shoe Repairing		1,889 87		
16	Tobacco	7,032 07	11,209 95	9,286 78	5,500 00
17	Watch Repairs	1,230 36			
18	Lunch Counter				
19		24,609 88	31,759 81	38,126 25	33,777 08
	Other Income:—				
20	Foreign Exchange	12,492 92	12,916 93		
21	Interest	59,777 05	62,218 20	36,798 42	14,158 98
22	Rentals received	12,965 70	16,528 50	23,909 08	18,109 75
23	Rejected Cheques recovered	173 82			
24	Sundry Items		968 47	15,405 08	19,222 30
25	Sale of Vancouver Garment Company's Stock				
26		85,409 49	92,632 10	76,112 58	51,491 03
27	Profit for Period before provision for Income Tax	644,764 00	696,524 40	699,591 04	774,871 69
28	Provision for Dominion and Provincial Income Taxes	160,000 00	261,105 25	144,613 56	185,949 10
29	Net Profit for Period	484,764 00	435,419 15	554,977 48	588,922 59

SURPLUS ACCOUNT

	—	As at 31st January, 1934	As at 31st January, 1933	As at 31st January, 1932
		$ cts.	$ cts.	$ cts.
1	Balance at beginning of period	378,907 97	300,517 57	
2	Net Profit for period	484,764 00	435,419 15	554,977 48
3		863,671 97	735,936 72	554,977 48
	Deduct:—			
4	Dividends paid	155,920 00	155,920 00	116,666 62
5	Shareholders' Special Advances written off		201,108 75	
6	Transferred to Share Capital at date of reorganization in December 1930			
7	Goodwill written off			137,793 29
8	Payment of Income Tax applicable to prior years	178,369 66		
9		334,289 66	357,028 75	254,459 91
10	Balance at end of period	529,382 31	378,907 77	300,517 57

WOODWARD STORES LIMITED

PROFIT AND LOSS ACCOUNTS—FOR THE TEN YEARS ENDING 31ST JANUARY, 1934

Year ending 31st January, 1930	Year ending 31st January, 1929	Year ending 31st January, 1928	Year ending 31st January, 1927	Year ending 31st January, 1926	Year ending 31st January, 1925	Total for 10 years ending 31st January, 1934	
$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
722,874 26	757,191 04	589,332 55	505,646 06	250,824 25	208,529 54	5,416,230 61	1
....	....	....	....	....	600 00	600 00	2
....	....	....	....	....	....	423 69	3
....	....	....	....	....	....	2,898 23	4
19,502 48	14,286 12	11,064 66	8,917 06	6,466 07	5,024 85	129,668 74	5
....	....	....	....	....	....	86 11	6
....	....	....	....	....	....	478 51	7
....	....	....	....	....	....	2,220 48	8
1,272 09	1,677 44	1,433 13	1,547 12	1,093 29	1,119 09	12,658 53	9
....	....	....	....	....	....	11 08	10
3,709 25	3,675 94	2,745 96	....	....	....	25,586 82	11
....	....	....	....	....	....	425 00	12
....	....	....	....	....	....	1,201 35	13
....	3,417 67	3,433 89	1,909 68	....	....	8,761 24	14
....	....	....	....	....	....	1,889 87	15
11,964 97	4,671 11	3,879 58	3,866 77	2,970 74	2,454 11	62,836 08	16
....	....	....	....	....	....	1,230 36	17
....	....	....	....	1,734 19	1,799 92	3,534 11	18
36,448 79	27,728 28	22,557 22	16,240 63	12,264 29	10,997 97	254,510 20	19
....	....	....	....	....	....	25,409 85	20
21,292 85	9,422 65	10,957 07	2,858 73	9,397 85	6,404 49	233,286 29	21
21,262 80	16,884 65	3,937 50	3,392 50	6,728 40	8,617 09	133,335 97	22
....	....	....	....	....	....	173 82	23
41,198 82	3,414 42	2,258 98	....	6,711 26	5,746 35	94,925 68	24
....	....	4,125 00	....	....	....	4,125 00	25
83,754 47	29,721 72	21,278 55	7,251 25	22,837 51	20,767 93	491,256 61	26
843,077 52	814,641 04	633,168 32	529,137 92	285,926 05	240,295 44	6,161,997 42	27
106,245 94	85,343 31	78,293 06	37,286 54	31,523 40	26,389 84	1,116,750 00	28
736,831 58	729,297 73	554,875 26	491,851 38	254,402 65	213,905 60	5,045,247 42	29

SURPLUS ACCOUNT

As at 31st December, 1930	As at 31st January, 1930	As at 31st January, 1929	As at 31st January, 1928	As at 31st January, 1927	As at 31st January, 1926	As at 31st January, 1925	
$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
2,720,484 74	2,071,153 16	1,429,355 43	944,480 17	522,628 79	338,226 14	194,320 54	1
588,922 59	736,831 58	729,297 73	554,875 26	491,851 38	254,402 65	213,905 60	2
3,309,407 33	2,807,984 74	2,158,653 16	1,499,355 43	1,014,480 17	592,628 79	408,226 14	3
113,866 62	87,500 00	87,500 00	70,000 00	70,000 00	70,000 00	70,000 00	4
....	....	....	....	....	....	....	5
3,195,540 71	....	....	....	....	....	....	6
....	....	....	....	....	....	....	7
....	....	....	....	....	....	....	8
3,309,407 33	87,500 00	87,500 00	70,000 00	70,000 00	70,000 00	70,000 00	9
....	2,720,484 74	2,071,153 16	1,429,355 43	944,480 17	522,628 79	338,226 14	10

WOODWARD STORES LIMITED

Departmental Operating Statements for the Year Ending 31st January, 1934

N o.	No.	Department—Name	Sales	Cost of Sales: Inventory 1st February, 1933	Cost of Sales: Purchases	Cost of Sales: Inventory 31st January, 1934	Cost of Sales: Cost of Sales	Gross Profit
			$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
1	56	Auto Accessories	8,182 43	....	7,943 73	2,488 75	5,454 98	2,727 45
2	48	Bakery	133,826 81	18,354 85	70,658 61	15,046 88	73,966 58	59,860 23
3	23	Butter and Eggs	612,842 67	6,154 74	540,744 27	23.399 08	523,499 93	89,342 74
4	16	Boots and Shoes	322,169 14	77,990 31	216,642 04	79,472 16	215,160 19	107,008 95
5	9	Boys' Clothing	204,276 95	50,429 10	151,637 88	51,438 88	150,628 10	53,648 85
6	5	Carpets	122,660 08	56,394 15	87,642 53	60,239 84	83,796 84	38,863 24
7	26	Crockery	113,973 36	80,311 91	65,416 98	66,372 53	79,356 36	34,617 00
8	14	Candy	51,289 87	2,447 63	31,067 24	2,249 59	31,265 28	20,024 59
9	7	Dry Goods "A"—Hosiery and Gloves	194,338 47	89,216 61	114,963 48	57,330 05	146,850 04	47,488 43
10	1	" "B"—Staples	155,794 67	65,261 06	109,152 22	64,981 42	109,431 86	46,362 81
11	2	" "C"—Ladies' Underwear	304,649 87	82,145 87	229,232 48	96,622 70	214,755 65	89,894 22
12	8	" "D"—Draperies	159,028 61	60,288 68	93,648 50	48,713 22	105,223 96	53,804 65
13	15	" "E"—Woollen and Dress Goods	67,700 75	17,912 67	44,649 33	16,196 94	46,365 06	21,335 69
14	20	" "F"—Silks	75,234 08	21,338 88	45,662 73	15,621 77	51,379 84	23,854 24
15	24	" "G"—Fancy Work	148,528 43	73,229 30	103,928 63	50,114 72	127,043 21	21,485 22
16	36	" "H"—Notions	138,597 82	25,976 29	102,571 39	35,710 50	92,837 18	45,760 64
17	13	Drugs	126,237 00	39,451 30	80,812 54	38,473 13	81,790 71	44,446 29
18	31	Fruit and Vegetables	77,897 59	1,925 76	60,215 38	3,355 86	58,785 28	19,112 31
19	38	Fish	63,651 06	6,390 32	45,051 95	3,906 73	47,535 54	16,115 52
20	3	Furniture	137,804 42	68,155 82	101,137 11	61,555 26	107,737 67	30,066 75
21	35	Fresh Meats	633,185 87	29,431 47	451,207 75	30,192 08	450,447 14	182,738 73
22	50	Garage	85,162 70	2,261 00	57,069 87	1,522 24	57,808 63	27,354 07
23	4	Grocery	1,878,967 91	260,132 38	1,608,402 37	333,399 76	1,535,134 99	343,832 92
24	27	Gents' Furnishing	371,036 19	83,453 89	257,561 39	87,093 52	253,921 76	117,114 43
25	6	Hardware	127,537 18	66,172 94	81,721 48	63,053 10	84,841 32	42,695 86
26	39	Hairdressing	20,625 81	528 42	2,339 26	349 42	2,518 26	18,107 55
27	19	Jewellery	30,654 42	18,236 63	14,516 97	9,844 03	22,909 57	7,744 85
28	30	Kitchenware	115,265 98	41,973 32	80,352 25	44,992 69	77,332 88	37,933 10
29	42	Lunch Counter	44,316 42	650 62	22,447 92	726 60	22,371 94	21,944 48
30	11	Mantles	408,602 38	72,162 13	285,202 93	61,960 20	295,404 86	113,197 52
31	32	Men's Shoes	178,036 20	45,493 32	120,818 19	39,086 03	127,225 48	50,810 72
32	28	Men's Clothing	158,592 46	32,602 79	106,195 04	31,028 12	107,769 66	50,822 80
33	10	Millinery	77,735 98	24,202 44	49,347 14	9,811 79	63,737 84	13,998 14
34	37	Patterns	8,263 27	7,189 50	6,566 94	7,566 25	6,190 19	2,073 08
35	46	Picture Frames	12,831 85	8,208 76	7,095 20	7,782 39	7,521 57	5,310 28
36	43	Plumbing	45,461 95	11,766 82	36,300 73	15,396 36	32,671 19	12,790 76
37	18	Seeds	41,399 01	3,915 83	30,341 21	3,644 35	30,612 69	10,786 32
38	45	Sporting Goods	39,966 33	19,078 65	28,723 20	17,850 39	29,951 46	10,014 87
39	29	Stationery	66,983 12	31,333 81	35,981 38	19,966 65	47,348 54	19,634 58
40	41	Stoves	39,435 70	8,510 73	24,657 29	4,965 15	28,202 87	11,232 83
41	21	Trunks	19,461 72	3,965 65	14,052 91	3,984 35	14,034 21	5,427 51
42	22	Toys	34,493 84	8,345 22	19,886 16	5,237 50	22,993 88	11,499 96
43	33	Tea Room	22,419 67	97 80	11,606 77	358 37	11,346 20	11,073 47
44	25	Toilet Goods	67,302 38	33,113 82	36,711 65	23,714 09	46,111 38	21,191 00
45	12	Wallpapers	90,415 58	34,310 97	58,213 64	31,989 01	60,535 60	29,879 98
			7,836,838 00	1,690,514 16	5,750,098 66	1,648,804 45	5,791,808 37	2,045,029 63

Losses are shown in black type.

WOODWARD STORES LIMITED

DEPARTMENTAL OPERATING STATEMENTS FOR THE YEAR ENDING 31ST JANUARY, 1934

Mark-up Percentage	Work-room Expenses Wages	Net Gross Profit	Net Mark-up Percentage	Expenses Charged to Cost of Sales in Company's Records	Available Discounts Treated as Financial Earnings in Company's Accounts	Net Gross Profit per Company's Accounts	Departmental Expenses per Company's Records	Net Departmental Profit or Loss per Company's Records	Mail Order Sales included in Sales	No.
%	$ cts.	$ cts.	%	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
50·00	....	2,727 45	50·00	14 77	187 75	2,524 93	1,682 78	842 15	878 15	1
80·93	24,145 71	35,714 52	48·28	317 78	754 53	58 787 92	**24,145 71**	496 42	2,366 39	2
						24,145 71	58,291 50			
17·07	....	.. 89,342 74	17·07	1,067 28	....	88,275 46	53,155 12	35,120 34	56,699 52	3
49·73	....	107,008 95	49·73	851 71	4,512 14	101,645 10	72,319 84	29,325 26	18,427 54	4
35·62	....	53,648 85	35·62	379 19	3,259 00	50,010 66	41,583 55	8,427 11	17,498 53	5
46·38	....	38,863 24	46·38	626 12	1,816 25	36,420 87	33,352 93	3,067 94	15,402 00	6
43·62	....	34,617 00	43·62	252 57	1,314 93	33,049 50	31,128 32	1,921 18	11,737 48	7
64·05	....	20,024 59	64·05	8 75	666 09	19,349 75	13,610 31	5,739 44	2,881 21	8
32·34	....	47,488 43	32·34	78 29	2,658 95	44,751 19	39,158 35	5,592 84	8,007 39	9
42·37	....	46,362 81	42·37	499 03	2,159 65	43,704 13	33,737 46	9,966 67	13,738 31	10
41·86	....	89,894 22	41·86	398 78	4,754 81	84,740 63	60,372 73	24,367 90	19,173 74	11
51·13	6,256 40	47,548 25	45·19	762 37	1,840 69	51,201 59	**6,256 40**	5,119 84	7,143 04	12
						6,256 40	46,081 75			
46·02	....	21,335 69	46·02	489 38	847 68	19,998 63	17,352 33	2,646 30	2,170 40	13
46·43	....	23,854 24	46·43	48 61	968 47	22,837 16	21,783 75	1,053 41	2,205 99	14
16·91	....	21,485 22	16·91	2,306 07	2,217 91	16,961 24	27,160 03	**10,198 79**	8,701 29	15
49·29	....	45,760 64	49·29	386 37	1,921 64	43,452 63	29,950 86	13,501 77	3,816 27	16
54·34	....	44,446 29	54·34	1,412 49	1,766 04	41,267 76	31,795 55	9,472 21	12,812 02	17
32·51	....	19,112 31	32·51	772 50	....	18,339 81	16,557 60	1,782 21	16,680 17	18
33·90	....	16,115 52	33·90	218,65	....	15,896 87	13,710 27	2,186 60	711 21	19
27·91	....	30,066 75	27·91	41 77	2,229 49	27,795 49	36,566 61	**8,771 12**	23,435 86	20
40·57	....	182,738 73	40·57	265 42	....	182,473 31	140,694 50	41,778 81	13,617 41	21
47·32	....	27,354 07	47·32	246 77	1,714 72	25,392 58	26,572 80	**1,180 22**	339 15	22
22·40	....	343,832 92	22·40	3,076 98	20,635 87	320,120 07	168,286 46	151,833 61	216,665 88	23
46·12	....	117,114 43	46·12	1,470 24	5,434 33	110,209 86	64,843 91	45,365 95	33,011 69	24
50·32	....	42,695 86	50·32	202 29	1,870 33	40,623 24	32,920 97	7,702 27	19,814 53	25
719·05	8,266 85	9,840 70	390·77	....	48·96	18,058 59	**8,266 85**	3,497 55	0 40	26
						8,266 85	14,561 04			
33·81	....	7,744 85	33·81	49 04	369 58	7,326 23	11,252 72	**3,926 49**	1,760 02	27
49·05	....	37,933 10	49·05	114 33	1,734 57	36,084 20	30,810 61	5,273 59	11,451 17	28
98·09	....	21,944 48	98·09	354 70	....	21,589 78	19,025 58	2,564 20	89 55	29
38·32	....	113,197 52	38·32	763 64	6,058 96	106,374 92	74,032 48	32,342 44	10,740 44	30
39·94	....	50,810 72	39·94	392 92	2,466 27	47,951 53	33,818 26	14,133 27	27,227 41	31
47·16	....	50,822 80	47·16	84 32	2,227 27	48,511 21	32,052 93	16,458 28	16,134 22	32
21·96	....	13,998 14	21·96	1,324 94	1,073 40	11,599 80	21,959 80	**10,360 00**	1,138 73	33
33·49	....	2,073 08	33·49	3 93	167 52	1,901 63	3,141 19	**1,239 56**	279 59	34
70·60	....	5,310 28	70·60	31 39	132 30	5,146 59	5,027 17	119 42	816 65	35
39·15	....	12,790 76	39·15	140 02	805 47	11,845 27	15,792 48	**3,947 21**	8,946 20	36
35·23	....	10,786 32	35·23	222 55	....	10,563 77	10,434 76	129 01	7,479 61	37
33·44	....	10,014 87	33·44	189 64	623 20	9,202 03	9,107 53	94 50	8,059 12	38
41·47	....	19,634 58	41·47	344 92	824 10	18,465 56	16,734 28	1,731 28	5,366 56	39
39·83	....	11,232 83	39·83	503 73	541 59	10,187 51	10,064 80	122 71	7,704 25	40
38·67	....	5,427 51	38·67	5 89	310 73	5,110 89	6,083 34	**972 45**	1,354 10	41
50·01	....	11,499 96	50·01	83 68	384 19	11,032 09	11,097 62	**65 53**	2,615 82	42
97·60	....	11,073,47	97·60	119·78	....	10,953 69	11,887 76	**934 07**	....	43
45·96	....	21,191 00	45·96	166 38	833 24	20,191 38	16,172 95	4,018 43	5,091 66	44
49·36	....	29,879 98	49·36	580 40	1,346 88	27,952 70	22,887 04	5,065 66	11,380 02	45
35·31	38,668 96	2,006,360 67	34·64	21,670 38	83,479 50	1,901,210 79	1,449,945 66	451,265 13	655,570 69	

WOODWARD STORES LIMITED

Statement Showing Number of Employees in Each Department During the Week Ending 2nd April, 1934 With Scale of Wages Paid per Week

—	Number of Employees		Rate of Pay		
	Male	Female	High	Low	Average
			$ cts.	$ cts.	$ cts.
Selling Clerks:—					
Auto Accessories	1	....	18 00	18 00	18 00
		—	....	....	....
Bakery	11	....	35 00	11 40	23 90
		21	14 40	12 75	12 75
Butter and Eggs	24	....	22 30	10 00	15 40
		—	....	....	....
Boots and Shoes	9	....	31 50	14 30	22 00
		11	16 00	12 00	13 35
Boys' Clothing	4	....	20 00	11 50	15 25
		7	12 75	8 00	10 80
Carpets	7	....	31 50	15 00	19 35
		—	....	....	....
Crockery	5	....	21 00	12 95	18 25
		13	18 00	12 75	13 30
Candy	1	....	9 50	9 50	9 50
		4	13 75	10 00	12 75
Dry Goods "A"	—	....	....	....	....
		18	15 10	8 50	13 00
"B"	2	....	15 00	10 00	12 50
		7	14 40	8 00	12 60
"C"	—	....	....	....	....
		20	17 00	11 00	13 65
"D"	5	....	20 00	7 50	12 50
		18	18 00	12 75	13 70
"E"	1	....	14 30	14 30	14 30
		6	13 05	12 75	12 80
"F"	—	....	....	....	....
		7	18 00	12 75	14 00
"G"	2	....	12 95	8 00	10 50
		13	18 00	9 00	12 75
"H"	—	....	....	....	....
		15	16 00	9 00	12 00
Drugs	6	....	27 00	8 00	18 80
		3	16 00	12 75	13 65
Fruit and Vegetables	2	....	23 00	10 25	16 50
		7	14 00	12 75	12 80
Fish	4	....	22 50	12 90	20 97
		—	....	....	....
Furniture	7	....	24 00	15 00	18 15
		—	....	....	....
Fresh Meats	48	....	40 00	11 00	18 80
		1	18 20	18 20	18 20
Garage	16	....	23 40	15 30	19 70
		—	....	....	....
Grocery	24	....	29 00	11 75	16 90
		73	16 50	12 75	12 75
Gents' Furnishings	7	....	39 00	8 00	20 50
		15	14 50	9 50	12 75
Hardware	12	....	25 00	12 50	19 00
		—	....	....	....
Hairdressing	1	....	17 67	17 67	17 67
		8	16 20	14 25	16 00
Jewellery	1	....	10 00	10 00	10 00
		2	14 25	12 75	13 50
Kitchenware	2	....	20 00	19 00	19 50
		6	14 25	12 75	13 05
Lunch Counter	1	....	13 00	13 00	13 00
		13	16 20	14 00	14 15
Mantles	1	....	18 00	18 00	18 00
		32	26 00	11 00	13 75
Men's Shoes	7	....	27 00	9 50	21 50
		2	12 75	12 75	12 75
Men's Clothing	5	....	31 50	18 90	24 65
		1	12 75	12 75	12 75
Millinery	—	....	....	....	....
		9	15 00	7 50	13 00
Patterns	—	....	....	....	....
		2	14 00	12 75	13 73

WOODWARD STORES LIMITED—Concluded

STATEMENT SHOWING NUMBER OF EMPLOYEES IN EACH DEPARTMENT DURING THE WEEK ENDING 2ND APRIL, 1934 WITH SCALE OF WAGES PAID PER WEEK—Concluded

—	Number of Employees		Rate of Pay		
	Male	Female	High	Low	Average
			$ cts.	$ cts.	$ cts.
Selling Clerks–*Concluded*					
Picture Frames	1	....	17 50	17 50	17 50
		1	12 75	12 75	12 75
Plumbing	3	....	27 00	12 50	19 85
		—	....	....	....
Seeds	2	....	18 00	8 00	13 00
		7	12 75	7 50	11 25
Sporting Goods	2	....	21 70	11 00	16 35
		—	....	....	....
Stationery	—	....	....	....	....
		5	18 00	12 75	14 00
Stoves	1	....	21 00	21 00	21 00
		—	....	....	....
Trunks	—	....	....	....	....
		1	14 00	14 00	14 00
Toys	—	....	....	....	....
		1	12 75	12 75	12 75
Tea Rooms	—	....	....	....	....
		12	15 00	12 00	14 00
Toilet Goods	—	....	....	....	....
		6	17 00	12 75	14 25
Wall Paper	5	....	19 75	12 90	14 40
		2	19 75	13 75	16 75
	599				
General and Clerical:—					
Advertising	9		25 00	11 50	16 00
Alterations	14		30 00	16 20	23 55
Cashiers	65		25 00	12 75	15 00
Elevators	17		25 00	12 85	17 00
Mail Order	38		29 00	12 75	16 00
Office	56		38 25	10 00	16 00
Post Office	3		18 00	15 00	16 00
Porters	35		22 50	14 00	17 65
Shipping and Receiving	6		20 70	14 30	17 05
Delivery	15		25 20	18 00	20 35
	857				

NOTE:—While the above figures relate to the regular employees there were employed during the week ending 2nd April, 252 extra selling clerks at wages ranging from $1.50 per day to $4.00 per day.

It has been and still is the practice of the Company to call in extra selling clerks for special Sales Days. These extra employees are not required to stand by waiting for employment but are called by telephone from a specially prepared list when they are required. Woodward Stores Limited frequently put on what they call their "95 Cent Day" and on such days from 500 to 700 extra clerks may be employed.

The first statement I show you is a copy of the balance sheets of Woodward Stores Limited, for eleven years ending January 31, 1934. I should explain here that in all the statements we shall submit, the close of the year does not coincide with the calendar year. The department stores usually close their accounts sometime in January. In the case of Woodwards, they close them on January 31. The statement shows that at January 31, 1924, the total assets of Woodwards were $1,641,000, and their capital was $1,000,000 with a surplus of $194,000, or a shareholders' equity of $1,194,000. In the 11-year period, the assets of Woodwards grew to $6,699,000 and the equity of the shareholders to $5,529,000, consisting of $5,000,000 of share capital and $529,000 of surplus.

Q. The surplus has grown from $194,320.54, in 1924, to $529,382.31, in 1934?—A. Yes. I should say, in explanation, that the surplus actually grew from $194,000 in 1924 to $2,700,000 in 1930.

Q. That is, in the six-year period the increase was that?—A. $2,500,000.

Q. $2,500,000 approximately?—A. Yes, approximately. At that date the company went through a reorganization of its capital. The fixed assets of the company were appraised; the appraisal value was put upon the books, and together with the surplus made an amount for which new capital was issued in the amount of $5,000,000. The capital was issued to the previous holders, substantially. There was no change in the ownership and no invitation to the public to subscribe for shares.

Q. By what amount were the assets written up in 1930?—A. Something over $1,000,000. There was a surplus, at the time of the reorganization, of $3,100,000. There was a capital of $1,250,000 at the time. The difference between that and $5,300,000 represents the amount for which the assets were written up—approximately $1,000,000.

Q. Approximately $1,000,000?—A. Yes.

Q. Then the surplus was absorbed?—A. Yes, the surplus was absorbed.

Q. And the capital write-up of approximately $1,000,000, together with the existing capital, constituted the consideration for the issue of the new capital of $5,000,000?—A. That is right.

Q. At the present time the shares issued and outstanding amount to $5,000,000?—A. $5,000,000.

Q. Then on January 31, 1932, you had the appearance of a new surplus?—A. A new surplus.

Q. What was the amount of that?—A. $300,000.

Q. $300,517.57?—A. Yes.

Q. Which, in 1933, grew to $378,907.97?—A. Right.

Q. And at January 31, 1934, had grown to $529,382.31—A. Yes.

Q. A surplus from operations?—A. A surplus from operations.

Q. Surplus profit from operations?—A. Yes, surplus profit from operations.

By Mr. Young:

Q. That means there was no new money put into it from the beginning, does it?—A. There was no new money. The profits of the business were what is called "ploughed back" into the business.

By Mr. Sommerville:

Q. Then, what was $1,641,000 in 1924 is now $6,699,000, in 1934?—A. That is right. Those are the assets.

Q. And held by practically the same shareholders?—A. By substantially the same shareholders.

Q. This is a private company?—A. A privately owned company, no outside shareholders of any kind. I think the Woodward family and their immediate relatives hold well over 90 per cent of the shares.

Q. You are going to indicate to us the dividends that have been paid in the meantime?—A. Yes, I will do that. It comes in the ordinary course. I was wondering if I might go on with the next statement and just bring out that point.

Q. Very well?—A. The second statement is the statement of operating accounts for the ten years ending January 31, 1934. You will see on the top of the page the sales each year, and a little lower down you will see the gross profit; then, as against that, the expenses are detailed in fairly good detail, and the operating profit is shown at the bottom. The operating profit from the actual operations of the store itself is what I am dealing with on this particular statement.

If you turn to the next sheet, you will find the operating profit carried forward, and certain other sundry incomes and expenditures added and the net profit for the period, which is down at the middle of the sheet. Following that still further, under the heading of surplus account, is shown the dividends paid each year.

By Mr. Young:

Q. Is that in addition to what is "ploughed back"?—A. Yes. The dividend has been paid.

By Mr. Sommerville:

Q. In the operating account, will you just indicate the increase in the volume that has taken place in the sales in that period of time?—A. In the year 1924,—that is, the year ending January 31, 1925,—sales of $5,480,000; that grew to a peak in the year ending January 31, 1932, of $10,050,000.

Q. You are giving us the figures approximately, or the odd figures?—A. I am giving you the odd figures, to the nearest thousand. Is that convenient? It will save a lot of dollars and cents.

Mr. Young: It suits me all right.

Mr. Sommerville: Yes.

The Witness: That dropped to $7,836,000 in the year ending January 31, 1934.

By Mr. Sommerville:

Q. But in the ten-year period the sales totalled what?—A. $82,000,000.

Q. And the gross profits in that period were what?—A. The gross profit fluctuated from the low in 1925—that is January 31, 1925. I will try and make that clear as I go along—of $936,000 to a peak in 1932 of $2,287,000.

Q. That was their biggest year in gross profit?—A. That was their biggest year in gross profit.

By Mr. Heaps:

Q. What was it in the last year?—A. In the last year it was $1,939,000.

Mr. Kennedy (*Peace River*): The biggest gross profit was in what year?

Mr. Sommerville: The biggest gross profit was in the year ending January 31, 1932, the twelve months period.

The Chairman: Thirteen months.

The Witness: Yes, thirteen months period.

Mr. Sommerville: I beg your pardon, for the thirteen months period, to the end of the year.

By Mr. Sommerville:

Q. The gross profit for the year ending January 31, 1934, was $1,939,000?—A. Yes.

Q. In the matter of expenses, I observe that during that period they had expended on advertising $1,092,000?—A. Yes.

Q. Rising from the low of $80,000 in the year ending January 31, 1925, to a peak of $132,000 for the year 1931?—A. Yes.

Q. And for last year, advertising of $107,000?—A. Yes.

By Mr. Kennedy (Winnipeg):

Q. Before you leave that item of advertising, is that the cost of money paid out for advertising or does it include allowances?—A. That is the cost of the money paid out for advertising in this case.

By Mr. Sommerville:

Q. Then I observe that wages, salaries and bonuses,—at the bottom of the page—had increased from $498,000 in 1924 to a peak of $1,212,000 at the end of January, 1932, and last year were $952,326.69?—A. Yes.

By Mr. Heaps:

Q. What about the number of employees in the same period?—A. I am coming to that, Mr. Heaps.

Mr. Heaps: Unless we have the number of employees we can't tell very much.

Mr. Sommerville: We will get that picture very fully.

By Mr. Sommerville:

Q. Then, this operating account will give you a record of the development of the business?—A. Yes.

Q. From an operating standpoint?—A. Yes.

Q. And the growth of the buying power of the company in that time?—A. Yes.

Q. Then I observe that you carry forward onto the next page, folio 3, that the net profits for the period—item 29—is an amount of $5,045,000?—A. That is right.

Q. That rises from a low of $213,000 in 1924 to a peak of $736,000 at January 31, 1930?—A. Yes.

Q. That is their most profitable year, in net profits. That drops to an amount of $484,000 at January 31, 1934?—A. It might be a matter of wonder to some of the members of the committee, and I can perhaps explain it, that the profits in 1930 were greater; that is, in the 1929 calendar year were greater than those of the year 1931, although the peak of the business was in 1931. My explanation is that in 1931 bonuses were paid on the accumulated profits amounting to $200,000 more than the salary expenses of the year 1929; just about the same difference.

By Mr. Heaps:

Q. Who were the bonuses paid to?—A. The employees.

Q. Which employees?—A. Everybody from the management down; that is, I won't say everybody. I would not like to say everybody got it, but generally, there was a system of bonuses paid in the year 1931.

By Mr. Sommerville:

Q. And that added substantially to it?—A. That added to the operating costs $200,000. There were no very large bonuses—I know what your question involves—no very large bonuses paid to the management.

Q. Was it in pursuance of a general system or was it an exceptional amount at that time?—A. I think, Mr. Sommerville, it was a distribution by the manage-

ment. In view of the substantial profits that the company had made, they felt generous towards their employees in that year, and gave them a little extra money.

Q. Now, in addition to the growth in the surplus that has been referred to previously from $1,600,000 to $6,600,000, what amount of dividends had been paid in the meantime to the shareholders of this company?—A. About $980,000.

Q. About $980,000 of dividends paid out?—A. Yes.

Q. Out of the surplus that was accumulated there was transferred to share capital at the date of reorganization, in December, 1930, I observe, a sum of $3,195,000?—A. That is right, yes.

Mr. HEAPS: Mr. Sommerville, would it not be as well if you put in the record the turn-over of the firm in that same period?

Mr. SOMMERVILLE: The sales have already been put on the record.

The CHAIRMAN: Have you got a copy of this?

Mr. HEAPS: I didn't get one.

The CHAIRMAN: You will find it at the top of the second sheet.

By the Chairman:

Q. What do you say those dividends were over the period?—A. $980,000, roughly.

By Mr. Kennedy (Winnipeg):

Q. What folio are you reading from that shows that?—A. The third page. I don't know whether it is number three with you, but it is the second half of the profit and loss account.

Q. There was not a total here?—A. I totalled them. It was not totalled.

By Mr. Sommerville:

Q. After the payment of those dividends, the transfer of this surplus to capital account and the payment of income tax, there now remains in surplus account a balance of what?—A. $529,000.

Q. $529,382.31?—A. Yes.

Q. I observe the dividends have been very largely increased since the years 1928-1929. Up to 1928 they were $70,000 a year?—A. Yes, that is right.

Q. 1929, $87,500; 1930, $113,000; 1932, $116,666; and 1933, $155,920, and 1934, $155,920?—A. Yes. They have been increased. They are not, as a matter of fact, though, any higher in relation to the profits.

Q. They are not any higher in relation to the profits. They are larger?—A. They are larger in amount, but actually a smaller percentage of profit has been distributed in later years.

Q. What is the entry for the 31st of January, 1933, shareholders special advances written off?—A. I am informed by agents in Vancouver in this case—I didn't make a personal examination—that those were advances that were made to certain of the Woodward family, perhaps you might call them in anticipation of dividends, and were written off at that time.

Q. So that in addition to the $980,000 in dividends they received an additional $201,000?—A. That is right.

Q. Or a total of about $1,180,000?—A. Yes.

By Mr. Kennedy (Peace River):

Q. Were they getting salaries on top of dividends?—A. Oh, yes.

By Mr. Sommerville:

Q. In addition to dividends, the executives were getting salaries?—A. Yes.

Q. The salaries in this company are very reasonable?—A. Very moderate in this company.

Q. Very moderate in this company?—A. Apart from dividends, the salaries are moderate.

Q. Now, the next statement is departmental operating statement?—A. For the last year of operations, the year 1933, ending on January 31, 1934, and this will show the department, the sales of that department, the cost of those sales, the gross profit and the mark-up percentage.

Mr. SOMMERVILLE: Just a minute. These statements had better be printed into the record, had they not?

The CHAIRMAN: Yes, I think so.

Mr. SOMMERVILLE: These statements that have already been filed will be printed as part of the record. They will come first. And so with the departmental mark-ups.—A. Shall I go on?

Q. Yes.—A. That shows that on sales of $7.836.838 in the last year of operations, there was a gross profit of $2,045,029.63, or an average mark-up of all departments of 35·31 per cent.

Q. Is that the actual mark-up on the cost?—A. That is the mark-up on the cost.

Q. The laid down cost?—A. The laid down cost. Now, if we eliminate from that the grocery and food departments we would get an average mark-up of 42 per cent on all departments on cost.

Mr. HEAPS: What was the grocery mark-up?

By Mr. Sommerville:

Q. If we eliminate the grocery and food mark-ups.—A. I have not worked it out, but I could very easily.

Q. Eliminating the grocery and food mark-ups leaves a gross mark-up of 42 per cent on all the other items?—A. The grocery was 22·4 per cent.

Q. The grocery is 22·4 per cent. Generally speaking, throughout the department stores you have examined, grocery and food departments show a low mark-up?—A. Yes.

Q. And then because it is a low mark-up in the one department, it tends to bring down the average of the whole?—A. That is quite so.

Q. And it does show the more in proportion to the volume in that grocery or food department?—A. Quite right, and the reason was that the sales in the grocery department are $1.878.967.91 out of a total of $7,836.838, or 25 per cent of the whole.

Q. 25 per cent of the whole business was in the grocery and food departments?—A. Yes.

Q. Because of the grocery department representing 25 per cent of the entire sales, it has a very important effect upon the whole average of mark-up, when you include the grocery mark-up in the statement?—A. Quite so.

Q. By eliminating it, then you get a 42 per cent mark-up on the cost of the remainder of the goods that are covered by the departmental figures that you have submitted?—A. Yes.

Q. Now, let us take some of those samples. In your candy department, you have a mark-up of 64·05 per cent?—A. Yes.

Q. In your dry goods, draperies, you have a mark-up of 51·13 per cent; in your dry goods, notions, you have a mark-up of 49·29 per cent?

Mr. KENNEDY *(Winnipeg):* The hairdressing has a mark-up of 719·05 per cent.

By Mr. Sommerville:

Q. We will come to that. On drugs you have a mark-up of 54·34 per cent; fruit and vegetables a mark-up of 32·51 per cent; fish has a mark-up of 33·90 per cent; fresh meats have a mark-up of 40·57 per cent?—A. Yes.

Q. Gents furnishings have a mark-up of 46·12 per cent?—A. Right.

Q. Hardware has a mark-up of 52·32 per cent. Hairdressing shows a large mark-up, but that is because it is only the cost of materials that are taken into consideration?—A. Yes.

Q. Labour has to come out of that?—A. Yes, and if you take the work-room, what was called the work-room expenses, wages, out of that, you will reduce that mark-up very substantially, as you will see in the next column. It does not really mean anything. The hairdressing department, strictly speaking, should be eliminated from that merchandising, to arrive at a fair mark-up. It does not amount to anything.

By Mr. Kennedy (Peace River):

Q. How much does it affect the general average?—A. It affects it so little that it has not been eliminated.

By Mr. Sommerville:

Q. Kitchenware was marked-up 49·05 per cent. Then, the lunch counter figures in the same way, does it not? You have all your wages to come out of that mark-up?—A.Yes.

The CHAIRMAN: No, excuse me.

The WITNESS: No, not in the lunch counter. Wages would be in.

The CHAIRMAN: That is 98 per cent.

By Mr. Sommerville:

Q. 98 per cent?—A. You will find very violent fluctuations as you go through the department stores between the mark-up of lunch counters.

Q. Then you have mantles marked up 38·32 per cent; men's shoes 39·94 per cent; men's clothing 47·16 per cent; picture frames 70·60 per cent; toys 50·01 per cent; toilet goods 45·96 per cent?—A. The committee will understand this point: These mark-ups are maintained mark-ups, the final figures.

Q. The finally maintained mark-up?—A. Yes, after any mark-downs for the sales of any slow-moving goods at lower prices, stock shortages, losses on merchandise or anything of that kind; these are the maintained mark-ups.

Mr. KENNEDY (*Winnipeg*): These are the mark-ups on the original invoices?

The WITNESS: No; we will come to that a little later on.

By Mr. Young:

Q. In arriving at the average of 35 per cent, you took into consideration the quantity of turnover in each department, did you?—A. Oh, yes.

By Mr. Sommerville:

Q. The turnover in every department is taken into consideration in getting your average. In other words, it is a weighted average?—A. It is a weighted average.

Q. For instance, in a department you may have a mark-up of 60 per cent; but suppose you had a sale of clearances, where they had reduced everything to 10 per cent that was included in the sale, that would bring down the average on the whole department?—A. Yes, quite so.

Q. Although it might not reflect itself in any reduction on any of the items except perhaps the articles that may have been included in the sale?—A. Quite so.

By Mr. Heaps:

Q. Was this firm entirely a cash trade firm?—A. No, there was some credit given. The credit is not very large. They had on the 31st January,

1934, $102,000 on general accounts, and $56,000 of a balance on goods sold under lien.

Q. It is practically a cash trade?—A. Practically a cash business, very small credit. We have not that printed, Mr. Sommerville, the one you have now. I think perhaps now we might give you some samples of the price spreads.

Q. Coming to the purchases in the departments themselves, you have, for instance, butter?—A. Yes.

Q. What did you find with respect to the butter department in this firm?—A. This firm made a loss on all butter sold in the year 1933.

Q. All the butter which they sold in 1933 was sold at a loss?—A. Sold at a loss.

Q. These departments are recognized as loss leader departments?—A. I think it is fair to say that the butter and eggs department—the eggs show a profit, but the butter shows a loss right throughout.

Q. It is part of the policy of this company throughout to sell its butter at cost or less than cost?—A. Yes, I think that is so.

Q. And that makes that item one of those that has been generally referred to here as a loss leader?—A. Yes.

Mr. YOUNG: This 17·07 per cent mark-up must be attributable to the eggs?

The WITNESS: It is attributable to the eggs.

The CHAIRMAN: Biddy carries the load.

By Mr. Sommerville:

Q. In addition to the butter, what other items were made regular loss leader departments by this firm?—A. Well, the outstanding item in this firm is bread.

Q. Bread?—A. Yes; the firm sells a one-pound loaf of bread, or two one-pound loaves of bread for 7 cents, or 3 for ten. The bread costs, as nearly as can be arrived at, and it was confirmed, when we had arrived at it, by the officials of the company, 4½ cents.

Q. The bread that costs them 4½ cents they sell at 3 for ten?—A. Three for ten.

Q. And that is a consistent, steady policy of the firm?—A. A consistent, steady policy of the company to sell their bread as a leader at less than cost.

Mr. HEAPS: Do they buy this bread or manufacture it themselves.

The WITNESS: They bake it, make it themselves.

Mr. SOMMERVILLE: On the premises?

The WITNESS: On the premises.

Mr. YOUNG: And yet they have a mark-up of 80 to 90 per cent on their bakery?

The WITNESS: That would be before taking in the labour and the cost of their bakery.

By Mr. Sommerville:

Q. What else did you find, by the way?—A. Including the labour, the calculation we made was that the ingredients cost per loaf 2·46 cents—2·246; the labour cost was ·721, 7/10ths of a cent, depreciation, electricity and sundry supplies cost ·453 cent, less than half a cent.

Mr. YOUNG: For a one pound loaf?

The WITNESS: For a one pound loaf.

Mr. HEAPS: How does that compare with the other numbers you have there?

Mr. SOMMERVILLE: I cannot tell you offhand, but we will compare it.

The WITNESS: The proportion of overhead that is charged to the bakery, consisting of a monthly charge for rent, management, wages etc., was .149 cents. The total cost of manufacturing the bread was 3.569 cents, selling cost .925 cents, making a total cost of 4.494 cents, practically 4½ cents, as against a selling cost of 3½ cents a loaf.

By Mr. Sommerville:

Q. And they deliver this bread in their delivery system?—A. They would deliver it on orders for other goods; they do not make a special delivery like a baker.

Q. I do not mean that they send delivery wagons to deliver bread from door to door?—A. No.

Q. But the price that is quoted for this bread is the delivery price?—A. Yes.

Q. When ordered by their customers?—A. Yes.

The CHAIRMAN: And it is used as a leader.

The WITNESS: It is used as a leader.

Mr. KENNEDY (*Winnipeg*): Let me get that point clear. Under the heading of bakery, you show the mark-up percentage as 80.93 per cent; after taking into consideration the wages, you show the net mark-up to be 48.28 per cent.

The CHAIRMAN: There are other things in there.

The WITNESS: Quite right. That 48.28 per cent is the mark-up in the bread before you apply the general departmental expenses. Now, in giving the cost of a loaf of bread, I have taken everything into consideration. Let us take any other article. If you take a man's overcoat, you might find a man's overcoat marked up 40 per cent, but if you apply the cost of the department, the selling price, and the overhead of the department—

Mr. KENNEDY (*Winnipeg*): I realize that.

The WITNESS: It shows the cost; the same thing applies on bread.

Mr. KENNEDY (*Winnipeg*): 48 per cent seems quite a mark-up, yet in spite of that it is operated at a loss.

The WITNESS: At a loss.

Mr. KENNEDY (*Winnipeg*): Is that carried through on the sheet to show a loss?

The WITNESS: No, I have shown on the separate statement the figures I have given just now.

By Mr. Sommerville:

Q. But you show the net departmental profit or loss on the whole bakery department to be a profit of $496.—A. Quite so.

Q. On all the bakery products?—A. On all the bakery products.

Q. And then this 48 per cent also includes other bakery products such as cakes?—A. Yes.

Q. And the supplies that are sold by the bakery?—A. Yes. They have quite a large sale of cakes and biscuits, home made cakes and things like that.

Q. That 48 per cent is the average? On the basis that you have indicated, the balance of the product must have a substantial market?—A. It would.

Q. In excess of 48 per cent?—A. Yes, it would, of course. Take cakes; they are a very profitable item.

Q. Now, you show bread and butter as leaders. What other leaders in that store do you recall as consistent leaders sold at a loss?—A. I think we can say

there were not consistent—that no items were consistently sold, but there is undoubtedly the policy of selling from time to time, articles as loss leaders. For instance, I can give you an instance now. On the 28th February, 1934, this company purchased from the B. C. Sugar Refinery, 240 bags of fine granulated sugar, 24,000 pounds, at $4.60 less 6 per cent trade discount, plus 2 cents per pound excise tax, or a net price to Woodwards' of 6.324 cents a pound. Sugar at that time, that month, cost, I would say, the independent retailer 6.6 cents per pound.

Q. 6.6 cents?—A. A little more.

Q. To the independent retailer?—R. Yes.

Q. From the refinery?—A. From the refinery, because of all the elements I have given, excise tax and so on. Woodwards obtained it through a special trade discount at a little less. Woodwards sold that sugar for 5.9 cents.

Q. 5.9 cents?—A. Yes. I won't say that was the common practice, but there was that particular case on that day.

Q. During that month?—A. During that month. On the 7th January, 1934, they purchased from the Royal Crown soap company, 54 cases of Crown Olive soap, in which they got 24 cases free. It is a policy, I think, of some of the soap companies, to give soap free—

Q. 24 cases of that soap was given free?—A. With 54 cases of 72's,—A. I do not know what the size of the 54 cases would be.

Q. They had 54 cases and they got 24 cases free?—A. Yes, and the purchase price was equal to 38·4 cents a dozen, which was sold by Woodwards at 2½ cents a cake.

Q. The 38·4 cents included their cost?—A. Yes.

Q. And the whole were sold at—A. Thirty cents a dozen.

The CHAIRMAN: It cost what?

The WITNESS: 38 cents a dozen.

Mr. HEAPS: What would be the loss on the total transaction?

The WITNESS: It was only a purchase of $180. You can get a lot of soap for $180. It would probably be around $40 on that one transaction.

By Mr. Sommerville:

Q. Yes?—A. And there are some other indications of it. I have not taken a list of them all; I thought one or two instances would be—

Q. Indicative?—A. Indicative of the fact that they do sell from time to time what is known as loss leaders.

Mr. KENNEDY (*Winnipeg*): The only two consistent commodities were butter and eggs?

The WITNESS: That is the only two we could find in the time—

Mr. YOUNG: Have you any means, Mr. Nash of knowing whether their bakery is efficiently managed or not?

The WITNESS: I think it is.

Mr. YOUNG: You think it is?

The WITNESS: Yes.

The CHAIRMAN: I do not think it would be there if it were not.

The WITNESS: I think it has to be consistently managed from what I know of the bakery situation in Vancouver.

By Mr. Sommerville:

Q. The bakery situation is a bad one?—A. The worst thing in the whole country, I think, in Vancouver.

Q. I understand the baking trade in Vancouver is in a worse condition there than any other part of the country?—A. I believe so; I know it, from a study of it.

Q. I think you are peculiarly familiar with the baking industry?—A. Yes, I know it.

Q. You had charge of the Maple Leaf Milling Company?—A. Yes.

Q. For some years?—A. Yes.

Q. Still?—A. No; I resigned actually from the board three years ago—from the management—I resigned from the board one year ago.

Q. What do you say as to the complaints that have been made to us so freely by the baking industry in Vancouver, that a large portion of their problem is created by the fact that bread is sold as a loss leader and the rest of the bakers have to try to meet it without the reserves behind them that Woodward's has, or the other stores have that are using bread as a distinct loss leader?—A. That is what I found.

Q. You found that that was the practice?—A. The larger bakers, those that have the milling companies behind them, are finding it difficult, but the small baker who has not the reserves cannot make bread and sell it at 3½ cents. It cannot be done.

By Mr. Kennedy (Winnipeg):

Q. Mr. Nash, did the officials of Woodward's intimate to you that they sell bread and butter as consistent loss leaders?—A. Not particularly.

Q. Did you make any inquiries as to that?—A. I did not make this investigation myself entirely. I went out there and instructed our agents in Vancouver to do it and told them the brief picture we wanted to gather, and I did not discuss or have an opportunity to discuss the reasons with the Woodward officials.

Mr. EDWARDS: Would the reason not likely be this, that the articles are common to every home?

The WITNESS: I think that is probably the case.

Mr. KENNEDY (*Winnipeg*): I wondered if they said that.

The WITNESS: No, they did not indicate that to me, but I gathered that was the case. I think there is no doubt about it.

Mr. KENNEDY (*Peace River*): That would also be true of sugar and soap.

The WITNESS: They are common household goods.

Mr. KENNEDY (*Winnipeg*): Cheap butter and bread would draw the people.

The WITNESS: It certainly draws the people. We find it often in Toronto; bread was also found at prices the bakers could not compete with.

By Mr. Young:

Q. Why does it draw the people, Mr. Nash?—A. Because I think it is a common household good; everybody has to have it.

Q. Why will they go into one store and get it, to save a cent?—A. I think most of us would do that.

Q. Is it because they need the cent?—A. I think it is.

By Mr. Sommerville:

Q. At any rate, the bread is sold at this loss, and so it creates the impression of cheap sales?—A. Yes.

Q. And it is a fact?—A. It is a fact.

Q. Now, with reference to your department of eggs. You have already intimated that there is a mark-up there?—A. The mark-up averaged from 23 per cent down to a very little; but the average mark-up is 17 per cent.

Q. What is the next department you dealt with?—A. Boots and shoes. We find the mark-up averages all the way from 100 per cent down to 10 per cent.

Q. We do not want to publish the names?

The CHAIRMAN: No.

By Mr. Sommerville:

Q. I just want to indicate some of those mark-ups in the individual departments?—A. Yes.

Q. That are made in shoes? Here are black suede three-eyelet tie shoes, total cost— —A. They cost $3.89, sold at a mark-up of $8.50. I do not want to tire the committee on explanations, but I want to say this was the initial mark-up. They were marked up to $8.50 or 118 per cent.

Q. Misses' black calf oxford shoes?—A. Cost 89 cents. Marked up to $1.79, or 110 per cent.

Q. Profit of 90 cents? Brown kid oxford tongue shoes?—A. Cost $3.15 and they marked up to $5.85 or 85 per cent.

Q. The next item is G. M. oxfords?—A. Cost $1.47 marked up to $2.69, 82 per cent.

Q. Gent's black calf Blucher shoes, cost $1.64 marked up to $2.95.

Q. Marked up— —A. 80 per cent, practically.

Q. Women's black calf tie shoes?—A. Cost $1.65, marked up to $2.95, 78 per cent.

Q. Women's black's dong. four-eye tie shoes?—A. Cost $2.16, marked up $3.85, 78 per cent.

Q. You have a number of these items with similar mark-ups. Let us come down to a more modest mark-up?—Take your Dominion Rubber women's plain over Vine—

Q. That is a large item?—A. The shoe cost 52 cents, the labour, marked up to 79 cents, a mark-up of practically 52 per cent.

Q. That is a large item. Take the item just before that, girls, cream and brown oxfords? A. Cost $1.94, marked up to $3.95.

Q. A profit of $1.01?—A. 52 per cent.

Q. Then you come down to the last mark-up here?—A. Indian Slipper called the Indian Lorette, Women's Indian slippers, black cape, cost 85 cents, marked-up to 95 cents, a mark-up of 11·76 per cent.

Q. That was a large selling item?—A. That was a large selling item.

Q. That large selling item with the low mark-up reduces the average on the whole?—A. Oh, yes. So after the markdowns and adjustments, sales of all the off stock, the average mark-up of each department was 49·73 per cent.

Q. The average mark-up maintained in all departments after all mark-downs was 49·73 per cent?—A. Yes.

Mr. HEAPS: How is that average arrived at, Mr. Nash?

The WITNESS: We took all the sales, and all the profits, and divided one into the other.

Mr. HEAPS: In the items where there was a large mark-up, were there many sales?

The WITNESS: Oh, yes.

Mr. HEAPS: On the shoes that cost $3.70 and sold for $8.50?

The WITNESS: Yes, some of them had pretty substantial sales.

Mr. KENNEDY (*Peace River*): The average is a weighted average.

The WITNESS: Yes, a weighted average.

By Mr. Sommerville:

Q. That very item you refer to, 240 pairs——A. In the one purchase.

Q. Most of the items vary from 30 and 40 up, while the item that has an 82 per cent mark-up had 120 pairs.

Mr. HEAPS: Take the case of the low items, where the percentage is rather small.

Mr. SOMMERVILLE: 700 pairs of the women's Indian slippers would be the largest item in the entire lot.

Mr. YOUNG: Does this appear to be the general rule with the cheaper lines? Take the lowest mark-up.

The WITNESS: No, I do not think I can say that.

By Mr. Sommerville:

Q. Here is a line, with a cost of 89 cents. The mark-up is $1.79, which is a mark-up of 101 per cent. Here is a line that cost 71 cents marked up to $1.25, 76 per cent?—A. I think it would be fair to answer your question in this way, that the highest price goods and the more fancy goods, such as—we come to some of them in the ladies' dress department, the highest priced dresses; they carry a larger mark-up than the cheaper dresses. I do not think you can apply that right throughout. I have not completed my study that I am making as to the lower prices. I cannot answer that question, and naturally I would not like to say—

Q. Does the amount of labour involved in fitting a customer affect the mark-up? I mean, those lines that require a lot of fitting, are they marked up on a higher margin than those that are easily fitted?—A. Of course the fitting cost would certainly be added to the cost of manufacture.

By Mr. Young:

Q. Does the amount of labour involved in fitting a customer effect the mark-up? I mean, in those lines that require a lot of fitting, are they marked at a higher mark-up than those that are easily fitted?—A. Of course, fitting costs would certainly be added to the cost of manufacturing.

Mr. SOMMERVILLE: In selling.

Mr. YOUNG: For instance, a man might go into a store to buy a pair of boots, and might be out in five minutes. Another would go in—and this would be a lady—and she would be there a long time.

The CHAIRMAN: Order.

By Mr. Heaps:

Q. Would not fashion have something to do with it?—A. Fashion?

Q. Fashionable goods would have a higher margin, would they not?—A. Yes, I think that is a fair statement.

By Mr. Young:

Q. The amount of labour involved in finishing a boot to suit individual tastes and fitting of the customer does not affect the mark-up?—A. No, I don't think so.

By Mr. Sommerville:

Q. Take for instance the item that you have got here of patent buckle strap shoes. I observe here the cost was $1.05. It is written up to $1.75, a 66 per cent mark-up on that item?—A. Yes.

Mr. SOMMERVILLE: That is a comparatively cheap shoe, and easily fitted, one would think—a slipper.

The CHAIRMAN: Mr. Young would know.

Mr. SOMMERVILLE: He ought to know.

By Mr. Sommerville:

Q. Take the next department, samples of mark-ups in boys' clothing?—A. The boys' clothing go from 96 per cent to 25 per cent of cost. The average mark-up percentage for 1933 was 35·62 per cent.

Q. The average actually maintained was 35·62 per cent?—A. Yes.

Q. For instance, the first item I observe on your sheet is boys' black cape gauntlet gloves, 600 pairs?—A. Cost 50 cents, marked up to 98 cents, 96 per cent mark-up.

Q. Aviation goggles; that is not a very large item, but it is 600 pairs?—A. Marked up from 51 cents to 98 cents, a mark-up of 92·16 per cent.

Q. The next is gloves?—A. Yes, cheap gloves. The cost was 54 cents, marked up to 98 cents, an 81·48 per cent mark-up.

Q. I see a large item here of knitted sweaters. What about them?—A. They cost 83 cents, were marked up to $1.49, or 79·52 per cent.

Q. I observe here boys' 4-piece suits, 225 of them?—A. They cost $9.48, and are marked up to $15.95, a mark-up of 68·25 per cent.

Q. I observe that these are supplied by a firm about which we have already had evidence, where they were prosecuted for not paying the minimum wage?—A. We shall be reporting on that firm later.

Q. Take the next item which is boys' combinations?—A. Yes. Cost, 42 cents; marked up to 69 cents, or a 64·20 per cent mark-up.

Q. The next is boys' long trousers?—A. 96 cents cost, marked up to $1.49, a 55·21 per cent mark-up.

Q. Here is a very large item of gloves?—A. Boys' gloves.

Q. 1,200 pairs of gloves?—A. Cost 46 cents, marked up to 69 cents, a 50 per cent mark-up.

Q. There is a small mark-up here on boys' shorts?—A. Cost 55 cents, marked up to 69 cents, a 25·45 per cent mark-up.

Mr. HEAPS: Were these shorts that were made for about 2 cents apiece?

Mr. SOMMERVILLE: I am sure they were.

The WITNESS: I didn't see the goods.

By Mr. Sommerville:

Q. But these are fair samples that you are choosing throughout the mark-ups?—A. Yes.

Q. And in choosing them, you have chosen items in which there was a substantial sale?—A. Yes. My instructions throughout to everybody was not to pick any high or low or medium, but all of them, some of all, as purely indicative of the method.

Q. And to choose items that were representative of large commodity sales?—A. Yes, as far as possible.

Q. Take for instance some items in the dry goods department, ladies' underwear?—A. There is one very large item there which you perhaps might take, rayon underwear.

Q. Rayon underwear?—A. Yes, 6060.

Q. Sets or pieces?—A. I don't know whether that is sets or pieces. They cost 34 cents, are marked up to 59 cents, a 73·53 per cent mark-up.

Q. What about pure silk dresses, the second item?—A. They cost $1.07, are marked up to $1.97, an 82·24 per cent mark-up.

Q. What about sleepers?—A. Sleepers cost 35 cents, marked up to 59 cents, a 68·57 per cent mark-up.

Q. Pyjamas?—A. Cost $1.27, marked up to $1.95, a 53·54 per cent mark-up.

Q. What about creepers?—A. Creepers cost 65 cents, marked up to 98 cents, or a 50·77 per cent mark-up.

Q. Here are some bathing suits, a large item?—A. Cost $1.25, marked up to $1.95, a 49·03 per cent mark-up.

Q. Here is an item that I thought had passed out of existence, corsets. There is not a great quantity?—A. They cost $2.71, marked up to $3.95, a 45·76 per cent mark-up. The average maintained mark-up of that department is 41·86 per cent.

Q. The average maintained mark-up in the entire department?—A. Yes.

Q. Next we have the drug department. First we have mineral oil, 90 gallons. That is a large quantity?—A. Cost $1.20, marked up to $3, a 150 per cent mark-up.

Q. The next is rubbing alcohol. What is that for?

Mr. Heaps: Rubbing.

The Witness: Cost 27 cents, marked up to 65 cents, a 140·74 per cent mark-up.

Mr. Sommerville: That is what they find under the park benches.

By Mr. Sommerville:

Q. What about Balmoral decorated 3-piece sets? Apparently it is something like celluloid?—A. Cost $4.49, marked up to $8.95, a 99·33 per cent mark-up.

Q. What about LaSalle cotton?—A. Cost 32 cents, marked up to 59 cents, an 84·38 per cent mark-up.

Q. Empty kit cases?—A. Cost 43 cents, marked up to 79 cents, an 83·72 per cent mark-up.

Q. Beef, iron & wine?—A. Cost 56 cents, marked up to $1, a 78·57 per cent mark-up.

Q. Tabloid thyroid, 5 grain, 100's?—A. Cost 95 cents, marked up to $1.50, a 57·90 per cent mark-up.

Q. Rolls razors?—A. Cost $4.10, marked up to $6.50, a 58·54 per cent mark-up.

By Mr. Heaps:

Q. Is that a standard article?—A. Rolls?

Q. Is that a price that is regulated by the manufacturer?

By the Chairman:

Q. Is it not a standard brand article?—A. I was going to say that my own personal knowledge is you can buy them at different prices.

By Mr. Sommerville:

Q. It is not a maintained price?—A. I don't think the price is maintained.

Q. Take aspirin, for instance, Bayer's aspirin?—A. Cost 66 cents a bottle of 100, I think, marked up to 95 cents, a 43·64 per cent mark-up.

Q. Wincarnis?—A. Wincarnis cost 91 cents, marked up to $1.29, a 41·76 per cent mark-up.

Q. Dr. Chase's nerve food?—A. Cost 37 cents, marked up to 52 cents, a 40·54 per cent mark-up.

Q. Let us go down to some of these maintained items. Is Fruit-a-tives in the maintained items?—A. I think probably it is, Mr. Sommerville. It cost 31 cents, marked up to 39 cents, a mark-up of 25·80 per cent.

Q. Burdock Blood Bitters?—A. Cost 78 cents, marked up to $1.
Q. That is a 28 per cent mark-up?—A. Yes, a 28·20 per cent mark-up.
Q. Then you have Castoria?—A. Cost 28 cents, marked up to 34 cents.
Q. A 30 per cent mark-up?—A. Yes, a 30·77 per cent mark-up.

Mr. HEAPS: Have you got Eno's fruit salts there?

Mr. SOMMERVILLE: We have got something just as good.

The CHAIRMAN: You seem to want Eno's.

The WITNESS: We have some Kruschen salts.

Mr. SOMMERVILLE: They won't do.

By Mr. Sommerville:

Q. What about Kruschen salts?—A. Cost 48 cents, marked up to 63 cents, a 31·25 per cent mark-up.

Q. You notice that all these lower mark-ups are on articles that are nationally advertised?—A. Largely so, yes.

Q. And many of them are maintained price articles?—A. Yes.

Q. As against some of these items that are not so advertised or maintained? —A. Yes.

Mr. HEAPS: What was the average mark-up in the drugs?

By Mr. Sommerville:

Q. Yes, the average maintained?—A. 54·34 per cent.

Mr. HEAPS: It is not so bad for a price maintained.

Mr. SOMMERVILLE: See how they have made it up, though.

Mr. HEAPS: Yes.

Mr. SOMMERVILLE: Notice the 150 per cent, 140 per cent, 99 cent per cent.

By Mr. Heaps:

Q. In the drug section you would have all the other standard articles, would you not?—A. Yes.

Q. Such as toothpaste and all that?—A. Yes.

Q. On which the profits are extremely low?—A. Yes, in many cases.

Mr. HEAPS: That would counteract it.

By Mr. Sommerville:

Q. Now, take furniture?—A. The mark-ups average there—they run from 91 per cent to 12 per cent the initial mark-up. The maintained mark-up for the department is only 27·91 per cent.

Q. That is the maintained mark-up?—A. Yes. The furniture in Vancouver is not a good example of the furniture trade across Canada.

Q. That is, in these stores the furniture is not handled in the same proportion of volume in Vancouver as in other cities?—A. No.

Q. I observe here some dressers marked up, the third item?—A. Cost $39.43, marked up to $66, a mark-up of 67·38 per cent.

Q. Take the first item, a walnut table?—A. Cost $23.45, written up to $45, a 91·89 per cent mark-up.

Q. They are made in Vancouver itself?—A. No, I think they are not. I think they are made in Ontario. There is a good deal of their furniture made in Vancouver.

Q. The next is a combination bookcase?—A. Cost $44.30, marked up to $79.50, a mark-up of 79·46 per cent.

Q. Take hardwood unfinished chairs, which forms a large item?—A. They cost 93½ cents, marked up to $1.50, a mark-up of 60·43 per cent.

Q. I observe here 20 bedroom suites. What about them?—A. They cost \$55.18, marked up to \$79.50, a mark-up of 44·07 per cent.

Q. Then you have a 3-piece tapestry suite, the fourth item from the end?—A. Cost \$53, marked up to \$69.50, a 30·62 per cent mark-up.

Q. That was made in Vancouver?—A. Yes, made in Vancouver.

Q. And that is where you have a 31 per cent mark-up only on that?—A. Yes.

Q. Here is an item of bed, spring and mattress of a well known, nationally advertised make?—A. Cost \$23.85, marked up to \$29.50, a mark-up of 23·69 per cent. There was a maintained mark-up in this department of 27·91 per cent.

Q. Now, let us take the fruit and vegetable department.—A. These mark-up range from 48·15 per cent to 19·64 per cent, the initial mark-up. The maintained mark-up for the department is 32·51 per cent.

Q. 32·51 per cent is the maintained mark-up on fruit and vegetables?—A. Yes.

Q. The first item is cauliflower?—A. Cauliflower bought for ·054 cents and sold for ·08 cents, a mark-up of 48·15 per cent.

Q. Potatoes, 5 tons?—A. Cost \$1.02½ per sack, sold for \$1.35 per sack, a mark-up of 31·71 per cent.

By Mr. Young:

Q. Is that selling by sacks or what they retail for?—A. That was sale by sack.

By Mr. Sommerville:

Q. Now, by pounds?—A. By pounds, the mark-up was from 10¼ cents for 10 pounds.

Q. For a peck?—A. A peck.

Q. No, that would not be it.—A. From 10¼ cents for 10 pounds to 15 cents, a mark-up of 46·34 per cent. The higher mark-up was in smaller quantities.

Q. Potatoes again, 15 tons, sacks?—A. Sacks marked from \$1.05 cost to \$1.39, a 32·38 per cent mark-up; and in small quantities, a 42·86 per cent mark-up.

Q. Apples, Mackintosh?—A. Cost \$1.25, marked up to \$1.65, a 32 per cent mark-up.

Q. Taking some of the last mark-ups, give us the mark-up for Japanese oranges.—A. Japanese oranges from \$1.25 to \$1.50, a 20 per cent mark-up.

Q. I see your list includes all varieties of fruit and vegetables?—A. Yes.

By Mr. Young:

Q. Do oranges only cost \$1.25 in Vancouver?—A. \$1.25.

Q. Is that a box or bale?—A. A case.

The Chairman: A \$1.25 bundle, they call them.

By Mr. Sommerville:

Q. Now, let us take fresh meats?—A. In fresh meats the mark-up is all the way from 144·44 per cent to 14·28 per cent.

Q. The first item is hams?—A. Hams purchased for 9 cents a pound, marked up to 22 cents a pound, a 144·44 per cent mark-up.

Q. Lambs?—A. Lambs purchased for ·0462 cents a pound sold at ·1075 cents, a 132·68 per cent mark-up.

Q. It does not look as if the consumer demand was fixing the price to the farmer there. The next is beef, F-quarters?—A. On beef there was a mark-up of 50 per cent.

Q. Carcasses of bulls?—A. Mark-up of 40 per cent.

Mr. KENNEDY (*Peace River*): What is that?

Mr. SOMMERVILLE: Ccs. bulls, bought at 5 cents, sold at 7 cents.

Mr. YOUNG: Not C.C.F.?

Mr. SOMMERVILLE: I didn't think anything of that existed in the C.C.F.

Mr. YOUNG: My mistake.

By Mr. Sommerville:

Q. The next item is lambs again.—A. Carcasses of lambs, 36·58 per cent mark-up.

Q. Sides of veal?—A. 30·77 per cent mark-up.

Q. And again, 30 carcasses of lamb?—A. 30·23 per cent mark-up.

Q. Beef again?—A. 28·57 per cent.

Q. Then, carcasses of beef, 10 carcasses?—A. 28·57 per cent mark-up.

Q. Premium chickens?—A. A mark-up of 27·27 per cent, purchased at 22 cents, sold at 28 cents a pound.

Q. Fresh pork loins?—A. A mark-up of 26·66 per cent.

Q. Pork shoulders?—A. 26·31 per cent.

Q. I see 10 cases of broilers, up above there, bought for 18 cents?—A. Yes, bought for 18 cents pound, sold for 25 cents, a mark-up of 38·88 per cent.

Q. I see a large quantity of turkeys here, 3,286 pounds of turkeys?—A. Purchased at 15½ cents a pound, marked up to 19 cents, a 22·58 per cent mark-up.

Q. And again, turkeys, farther down?—A. Yes, a mark-up of 17 cents to 20 cents a pound.

Q. A 17 per cent mark-up?—A. Yes, 17·65 per cent.

Q. And again at the bottom of the sheet, pork shoulers?—A. Yes, marked up from ·07 cents to ·08 cents, or a 14·28 per cent mark-up.

By Mr. Young:

Q. Is there any rule which they follow in fixing these mark-ups? I suppose they would not give you reasons why they charge that?—A. Oh, they were not averse to giving us reasons. They say that they leave this matter pretty well in the hands of the department manager, that they make him responsible for his department making a good showing. They are quite frank about it.

Q. They didn't explain why they wanted a 15 per cent mark-up in one case and wanted over 100 per cent in another?—A. No.

By Mr. Heaps:

Q. Would not outside competition possibly be the reason for that?—A. I think so. Vancouver business is somewhat different to Toronto, or the eastern business, where you have very large business in farm produce, butter, eggs and meats in these stores in comparison with their total business, larger than you will find in the eastern department stores.

By Mr. Sommerville:

Q. On your meat department, you show an average maintained mark-up for the year of 40·57 per cent?—A. Yes.

Q. And in the food department, that is a large mark-up?—A. Yes.

By Mr. Kennedy (Peace River):

Q. Why was the mark-up on hams so high?—A. I think that is a particular type of hams; they are a high quality ham.

Mr. SOMMERVILLE: They bought them very cheap.

The CHAIRMAN: What are they?

Mr. SOMMERVILLE: 100 hams at 9 cents, sold for 22 cents.

The CHAIRMAN: There is an illustration of special buying, from 9 cents marked up to 22 cents. It is an exceeding low price.

By Mr. Young:

Q. Did I understand you to say a minute ago that in some of these lines they could get supplies from the farmers?—A. No, I don't know that I said that. Fresh meat, I think.

Q. They get fresh meat from the farmers?—A. Sometimes, I think.

Q. But can't get hams from them?—A. No, these hams are not from the farmers.

Q. Might that explain the difference in the mark-up?

Mr. SOMMERVILLE: No, here are the mark-ups. These are from the big firms, Burns, Gainers, Swifts, Union Packing Company, Gainers, Scotts, the Pacific Meat Company, Swifts, Gainers, Burns, Scotts, Swifts, Northern Alberta Dairy Pool, Scotts and Swifts again.

By Mr. Young:

Q. There is no record of the mark-up on what they bought from the farmers?—A. No.

By Mr. Sommerville:

Q. Now, let us take the grocery department?—A. The grocery department showed an average maintained mark-up of 22·40 per cent, and the initial mark-up ranged from 45 per cent to 4·36 per cent.

Q. 4 per cent was what?—A. 4 per cent is the mark-up on fine granulated sugar.

Q. On fine granulated sugar, the year's mark-up was 4 per cent?—A. 4 per cent.

Q. I observe at the head of the list, there is tea?—A. Tea purchased at 20 cents, marked up to 29 cents, or a 45 per cent mark-up.

Q. Kellogg's corn flakes?—A. Bought for ·0631 cents and sold for 8½ cents, a mark-up of 34·71 per cent.

Q. White naphtha?—A. White naphtha, a mark-up of 28·20 per cent.

Q. Prunes?—A. Prunes are marked up 27·27 per cent.

Q. Crown olive soap?—A. 25 per cent.

Q. Peas, No. 5's, 2 size tins?—A. 23·88 per cent.

Q. Quaker corn flakes?—A. 17·24 per cent.

Q. Now go down to Clover Leaf salmon, ½'s, flat?—A. Bought for 14 cents, marked up to 16 cents, a 14·29 per cent mark-up.

Q. The next item is Ontario honey?—A. A mark-up from ·2628 to 30 cents, a mark-up of 14·15 per cent.

Q. Then coming down to Fels Naphtha soap, there is a little mark-up?—A. A mark-up of 11·46 per cent.

Q. Now come to the mantles department, that is ladies' mantles?—A. The maintained mark-up was 38·32 per cent. The initial mark-ups went all the way from 193·10 per cent to 36·84 per cent. There is a loss in this department. You will notice that the initial mark-up appears to be somewhat out of line with the maintained cost. There is a loss in connection with mantles, a sharp mark-down in sale of small specialty goods.

Q. At the end of the selling season?—A. Yes. It is necessary to get a higher initial mark-up in the case of goods of this quality.

Q. For instance, I see assorted coats, 150 of them?—A. They were bought for \$2.03 and written up to \$5.95, or a 193·10 per cent mark-up.

Q. That is not a high grade coat?—A. That particular one is not. That probably was a popular coat.

Q. A 193 per cent mark-up?—A. Yes.

Q. Then here is another quantity of assorted coats?—A. Yes, assorted coats purchased for \$8.29, marked up to \$14.95, an 80·35 per cent mark-up.

Mr. HEAPS: Have you got the quantity there?

Mr. SOMMERVILLE: Yes, in the first case it was 150 coats and in the next case it was 68 coats.

The WITNESS: In one case of 1,200 linen and print dresses, they were purchased at 60 cents and marked up to 98 cents, a 63.33 per cent mark-up.

By Mr. Sommerville:

Q. When it is sold at 60 cents to the retailer, that is laid down, they cost 54 cents?—A. They cost, from the factory, 54 cents.

By Mr. Heaps:

Q. Do you know where they were made?—A. Purchased in Montreal.

Q. Does the same apply to the mantles at \$2?—A. Yes, both in Montreal.

Mr. SOMMERVILLE: Yes. We have had the name of this firm mentioned to us before.

The WITNESS: We shall also be reporting on that.

Mr. SOMMERVILLE: You will be reporting on that. There will be a report on that firm, also.

By Mr. Sommerville:

Q. Then, I observe here an item of some skirts?—A. Yes, 60 skirts purchased at \$1.23, marked up to \$1.95, a 58.53 per cent mark-up.

Q. Leatherette coats?—A. Leatherette coats purchased for \$3.15, marked up to \$4.95, a 57.14 per cent mark-up.

Q. Lace dresses?—A. Lace dresses purchased for \$9.54, marked up to \$14.95, a 56.71 per cent marked-up.

Q. I observe you have not any of the high priced coats in this list at all?—A. No, it is indicative of the business.

Q. This is indicative of the popular dress business?—A. Yes.

Q. Here are suits or coats next?—A. \$42.25, marked up to \$65, a 50.84 per cent mark-up.

Q. That is not the one I mean?—A. You want taffeta?

Q. Yes, taffeta dresses, 300?—A. Also purchased in Montreal, purchased at 81 cents, marked up to \$1.25, a 54·32 per cent mark-up.

Q. They were sold in Montreal at 75 cents?—A. Sold in Montreal at 75 cents.

Q. With freight and sales tax, the laid down was 81 cents, and your mark-up is 54 per cent on that?—A. Yes.

Q. I think we also have a report on that firm in Montreal?—A. Yes.

Q. Then coming down to the item of coats, No. 237, made in Winnipeg, about the sixth from the bottom?—A. Yes; the laid down cost was \$8.89, marked up to \$12.95, a 45.67 per cent mark-up. That is purchased in Winnipeg.

Q. And your lowest mark-up there is what?—A. Coats purchased in Toronto for \$16.75, laid down in Vancouver at \$18.25, marked up to \$25.

Q. That is a mark-up of 36 per cent?—A. Yes.

Q. Take these smocks made in Montreal?—A. Laid down cost in Vancouver, \$1.38; purchased from factory in Montreal at \$1.25, marked up to \$1.95, a 41.30 per cent mark-up.

Q. That is fairly representative of the mantle department in that business?—A. I believe so. That is my instructions.

Q. I observe that practically all, or the bulk of these coats are made in Montreal, some in Toronto, and one lot in Winnipeg?—A. Yes, they are made in Montreal.

Q. Then, take men's clothing?—A. Men's clothing, also mostly Montreal, some Toronto. The maintained mark-up against the clothing department is 47.16 per cent, and the mark-ups range from 80 to 90 per cent, down to 35 per cent.

Q. Take the first item from Montreal, men's suits?—A. Quantity purchased at $7.50, laid down at $8.05, sold at three prices, $12, $15, $18.

Q. 236 suits were bought from this Montreal firm at $7.50 a suit?—A. Yes.

Q. They were sold at $12, $15, and $18?—A. Yes.

Mr. Heaps: Was that $7.50 at Vancouver?

The Witness: $7.50 at Montreal.

By Mr. Sommerville:

Q. It cost 59 cents to lay them down at Vancouver, or $8.09, and the mark-up ranged from $12, to $18?—A. 48 per cent.

Q. From 48 per cent to 85 per cent?—A. 48 per cent to 85 per cent on two lots.

Q. Those that sold at $18 were marked up—A. 122 per cent.

Q. The next item, grey worsted trousers, from a Montreal firm?—A. Purchased for $1.90, laid down in Vancouver at $2.09, marked up to $3.95 or a mark-up of 89 per cent.

Q. Here are some men's trench coats?—A. Cost laid down $3.94, marked up to $6.95, or a mark-up of 76 per cent.

Q. Here we have this Toronto firm that was penalized for a breach of the minimum wage law, and we find men's four piece suits?—A. Purchased laid down in Vancouver at $8.15, purchased from the factory at $7.50.

Q. That would be two-trouser suits?—A. Yes.

Q. $7.50?—A. Yes.

Q. $7.50?—A. Marked up to $13.65, or a mark-up percentage of 67.

Q. Boys' long trousers is the next item?—A. Laid down in Vancouver $2.43, marked up to $3.95, or a percentage of 62.

Mr. Kennedy (*Peace River*): What is the explanation of the suit laid down at $8.09 having three prices?

The Witness: I cannot give that to you.

By Mr. Kennedy (Peace River):

Q. And being sold at $18, $12, and $15.—A. I cannot give you all these purchases, but I can give you another case where parts of a suit were divided as to selection of colour and suitability, perhaps to the trade generally, and that is indicated in the three prices. We came across that case.

Q. They would be marked that way when the lot came in?—A. I believe that was the case, yes.

Mr. Sommerville: You will find other cases.

The Witness: Well, of the $7.50 suits, perhaps browns were not as favourable to the trade as blue, and so on.

Mr. Kennedy (*Peace River*): What were the colours; was it a question of colours?

Mr. Sommerville: You would have to choose the less popular colours, if you want to get in on the low mark-ups. Then, we have Raglan top coats.

The WITNESS: Purchased from Montreal at $12.75, laid down in Vancouver at $13.60, marked up to $21, 54 per cent.

Mr. SOMMERVILLE: Zipper combinations from an overall company in Montreal.

Mr. HEAPS: Before you go on with this, can you tell me why it costs so much to lay down one article as compared with another?

The CHAIRMAN: Sales tax and freight.

The WITNESS: Sales tax, freight and duty.

Mr. HEAPS: In the suits you gave, there was an extra expense of 50 odd cents for a suit laid down in Vancouver, and then you gave others where the expense of laying down in Vancouver was much higher, as high as $2.50.

The WITNESS: No, I compared that suit that was purchased in Montreal for $7.50, and sales tax and freight to Vancouver amounted to 59 cents, which would be $8.09, with the price that the article was selling for in Vancouver. The article that we are dealing with now, the $12.75 article, has sales tax and freight of 85 cents.

Mr. SOMMERVILLE: They have all a relatively small cost.

Mr. HEAPS: Pardon me.

The WITNESS: Zipper combinations cost, laid down in Vancouver, $2.25, marked up to $3.50, 55 per cent.

Mr. SOMMERVILLE: Moleskin pants.

The WITNESS: Laid down at $1.25, marked up to $1.95, 56 per cent.

Mr. HEAPS: Where were these made?

Mr. SOMMERVILLE: In Toronto. That firm is also one of the firms on which there will be a report.

By Mr. Sommerville:

Q. Here you have another one: 130 pairs of trousers made in Vancouver?—A. Cost, $3, marked up to $4.50, 50 per cent.

Q. The next item there is men's leather coats?—A. Laid down at $7.72, marked up to $10.95, 42 per cent.

Q. Take the toilet goods department?—A. The toilet goods department maintained a mark-up of 42·96 per cent. The initial mark-up ran from 96 per cent to 26 per cent.

Q. Give me just a few of those?—A. Take three items there, castile soaps, a dozen cakes of castile soap marked up 85 per cent.

The CHAIRMAN: Bought at ·027 cents, and sold at 5 cents.

The WITNESS: Bought at ·027 and sold at 5 cents.

By Mr. Sommerville:

Q. Moire pouch bags?—A. Moire pouch bags, gross, purchased for 17$\frac{2}{3}$, marked up $1.25, 70 per cent mark-up. Various shades of rouge, purchased 32$\frac{3}{4}$ cents, sold for 55 cents, 66 per cent mark-up.

Q. Here is Squibbs dental cream?—A. Squibbs dental cream, purchased for 16 cents, marked up 25 cents, 56 cents.

Q. Devon violets?—A. Purchased for 83$\frac{1}{2}$, marked up to $1.25, 50 per cent.

Q. Even William Special tonition preparation?—A. Marked up to 50 per cent.

Q. Pompeian?—A. Marked up 48 per cent, cost 42$\frac{1}{2}$ cents.

Q. Ponds Vanishing cream?—A. Ponds Vanishing cream, purchased for 28 cents, marked up to 39 cents, 39 per cent mark-up.

Q. We come down to Ponds Cold cream?—A. Marked up to 34 per cent, on a cost of 66 cents?

Q. Pepsodent tooth paste?—A. Cost 34 cents, sold for 43, marked up 26 per cent.

Q. That covers— —A. That covers all the departments examined. We could not examine every department; we took 12 as being the average, indicative of the whole.

Q. And these are fairly representative of the modest priced merchandise sold in those various departments?—A. Yes.

Q. I have not observed any very high price articles as set out showing the mark-up— —A. No, it would be no use taking one outstanding article; it would not be fair; it would not be indicative. There is one thing, Mr. Sommerville, that I have which will not take me a moment to explain. You asked me about loss leaders, and I should have told you about it, but I did not tell you of the one I had. While perhaps it is not exactly in the class of loss leaders, it comes in the important class which you asked us to look into; that is, special trade discounts. We have certain cases here of Absorbine Junior liniment purchased at $11.25 per dozen. That is the regular price to the trade. Woodwards received a trade discount of 15 per cent on this price. Phillips' milk of magnesia sells to the trade at $4.77; Woodward's received a trade discount of 15 per cent, on that.

Q. Is that one of the cases where they used it as a loss leader?—A. I cannot tell you because our agents in Vancouver did not select that. Mr. Matthews gave evidence on page 494 of the evidence, of these being loss leaders, and for that reason I got the price and the discount to Woodward's, so as to tie up the evidence of Mr. Matthews.

Q. What does it show?—A. It shows this only; they got the 15 per cent discount off the regular selling price. Dodds kidney pills is another case, selling at $4.30 a dozen, whereas Woodward's purchased them in February at $3.88 per dozen. I put this in because the evidence was given and I thought the explanation might bring that out. The last statement I have with regard to Woodward's themselves, is the wage statement, but I have not a printed copy of them.

Q. Wage statement?—A. There is nothing that is very outstanding in this. I might save the committee's time by saying we were assured by Woodward's first, and secondly by the Minimum Wage Board in British Columbia, that in no case have Woodward's, Spencer's or the Hudsons Bay Company evaded the Minimum wage act.

Mr. Kennedy (*Winnipeg*): What is the minimum wage for females in British Columbia?

The Witness: $12.

Mr. Heaps: It goes up to $12?

The Witness: $12.

Mr. Heaps: What is the minimum?

The Witness: I have a table for all across Canada, which I will file later.

Mr. Sommerville: There is a comparative statement to be filed?

Mr. Heaps: How does the wages at Woodward's compare with the wages paid in the other stores?

The Witness: I think they are fairly comparable.

Mr. Heaps: Have you any idea as to the rates of pay in departmental stores as compared with the independent retail stores?

The Witness: No, we did not go into the independent retail stores.

Mr. Kennedy (*Winnipeg*): Did you go into the chain stores?

The WITNESS: No.

Mr. HEAPS: What hours is the Woodward store open for business?

The WITNESS: I will look it up for you.

Mr. EDWARDS: You will find that on folio number 567.

The WITNESS: I have not got that immediately available.

By Mr. Heaps:

Q. You will get that later on?—A. Yes.

Q. You spoke there about bonuses that were given to the employees for one year?—A. Yes.

Q. Was it just for one year only?—A. Well, that particular bonus I was speaking of was for one year.

Q. There has been no other bonus paid in other years?—A. I would not like to say that. There have been a few bonuses paid from time to time, you know.

Q. Is there any other concession that the employees obtained from this firm?—A. They can purchase goods at the store for something less than the general public.

Q. Do they get paid for time off when they are sick?—A. I cannot answer that question.

Q. Do they get any holidays with pay?—A. Yes, they get holidays with pay.

Q. How long do they get?—A. I think it is a week in this case.

By Mr. Sommerville:

Q. In the case of this store, I understand the employees are on full time?—A. Full time, yes.

Q. The employees are not asked to come in at 11 and serve until 4.30 or 5; they are engaged a full week and work a full week?—A. That is correct.

Q. Except on certain days when they have what they call a 95 cent day?—A. Except on certain days when they have a 95 cent day, when they bring in extra employees.

Q. When they bring in from 500 to 700 extra clerks?—A. Yes.

By Mr. Heaps:

Q. Are there any part-time employees there?—A. Not apart from this 95 cent day.

The CHAIRMAN: None of that evasion of the minimum wage law by having a clerk come in late and leave early?

The WITNESS: We did not find any indication in Vancouver. The wages are not high, neither are they what we would call low, as we have seen them in other places.

The CHAIRMAN: These are the minimum?

The WITNESS: Yes.

By Mr. Sommerville:

Q. You have given us here the high, low and average?—A. Yes.

Q. In each of the departments through the store?—A. Yes, through the store.

Q. And the number of employees?—A. Yes.

Q. Now, have you in this case, a comparative statement showing the reduction, if any, that has taken place in the wages of employees these past

two or three years?—A. No, but I can give you the information. I have not got a statement, because there was only one reduction made. They made one reduction in wages about two years ago when a cut of ten per cent was made in all salaries on wages less than $30 a week, and 15 per cent on all salaries above that figure. That scale is still in force at the present time.

By Mr. Heaps:

Q. It would not bring any of the employees below the minimum wage rates of the Province?—A. No, it would not.

By Mr. Sommerville:

Q. Was there a reduction in British Columbia of the minimum wage, the same as there was in Manitoba and Saskatchewan?—A. That is my belief, I think that is so.

Q. There was in Manitoba a ten per cent reduction?—A. I think there was, I have that but I have not the rate of the reduction in the minimum wage.

Q. You say that reduction took place in— —A. 1932.

Q. In the year 1932?—A. Early in 1932.

Q. Early in 1932, and that was at a time when they had shown a profit of $585,352, in that year ending the 31st January, 1932?—A. Yes.

Q. Which was a very substantial profit, a larger profit than they had made in the previous year, 1929?—A. No, it was the falling off in operating profit from 1930 to December of 1931.

Q. Oh yes, there was a falling off in the profit that was made in 1929, 1930 and 1931?—A. Quite so.

Q. But the profit of that year was larger than the profits of any year prior to 1929?—A. Quite so.

By Mr. Kennedy (Winnipeg):

Q. Returning to the matter of minimum wages: I see in the annual report of the Department of Labour as affecting British Columbia for the year ending December 31, 1932, a heading which refers to industry, I suppose that is the industry such as is referred to where workers get $12.75 a week; then under the classification of inexperienced workers they start at a minimum of $7.50 for the first three months; it goes up to $11 per week, under 18 years of age. With respect to 18 years of age or over, it starts with a minimum of $9 per week, but after three months it goes up to $12 a week?—A. I am not sure.

By Mr. Heaps:

Q. Are these employees of these departmental stores on a weekly rate?—A. On a weekly rate, yes.

Q. It is not an hourly rate?—A. No, it is weekly; they are sales clerks, you see, they have no rate per hour.

Q. Would that weekly rate apply to all employees of the firm?—A. All employees, yes.

By Mr. Kennedy (Winnipeg):

Q. Mr. Nash, I notice in the sample week you gave that you gave the weekly wages for the week ending April 2 of this year; how does it differ as to last year or other dates?—A. Not to any great extent. This statement merely supplies what we were asked to get.

Q. You are satisfied that the sample week you give reflects similar conditions of a year ago?—A. Quite satisfied, yes.

By Mr. Sommerville:

Q. And the total number of their employees on April 2 last was 857?—A. 857.

By Mr. Young:

Q. Now, Mr. Nash, this committee wants to find out whether these big stores are justifiable or not. We are told now that these firms in particular used bread and butter consistently as loss leaders, they sell them at a loss; and we are told that they make up that loss by charging too much for other kinds of goods. Now, you have given us their mark-up on a good many lines of goods, in order that they might be of value to us in determining whether these stores are justified or not. To do that we would have to have similar mark-ups in independent stores?—A. Yes, sir.

Q. Are we getting that, Mr. Chairman?

The CHAIRMAN: I expect so, yes.

Now gentlemen, it is almost one o'clock and we will not open another matter, because we will start again at 3.30.

The Committee adjourned at 12.50 p.m. to meet again this day at 3.30 p.m.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

The CHAIRMAN: Order, gentlemen.

A. E. Nash, examination resumed.

By Mr. Sommerville:

Q. Now, Mr. Nash, just before we leave this statement of Woodward Stores Limited, may we just gather up the net results of the operations; for the past four years the net profits appear to be $2,064,083?—A. That is right.

Q. And the reserves for several purposes,—depreciation, etc.—have increased $516,671?—A. That is right.

Q. Making a total of profit before reserve of $2,580,754 in these four years? —A. Yes.

Q. And these are the four years since the reorganization when the capital was increased to $5,000,000?—A. Yes.

Q. And when they accumulated surplus up to that time and the additional write-up was transferred to the shareholders by way of a capital increase?—A. Yes.

Q. And they were given the increased shares which that capital represented?—A. Right.

Q. Now during that time, in the past four years the amount of dividends paid out was the sum of $542,372?—A. Yes. That is exclusive of special advances.

Q. That is exclusive of special advances?—A. Yes.

Q. $542,000, then there were special advances of $201,108 to the shareholders?—A. That is right.

Q. Making a total of $743,480?—A. Yes.

Q. By way of dividends and advances?—A. Yes.

Q. Then during this period there was a surplus built up from nothing to $529,382?—A. That is right.

Q. Making a total of dividends and surplus for this period of $1,272,862?—A. Yes.

Q. Then during that same period the goodwill was written off?—A. Yes.

Q. Of $137,793?—A. That is right.

Q. And, in addition to that, there was a special income tax assessment on previous years of $178,309?—A. I do not know whether that is an assessment. It was a payment by the company of taxes applicable to prior years.

Q. And in addition to that you had an increase in the reserve of $516,000? —A. Right.

Q. And that made a real appreciation in these years from profits after providing reserves of $2,105,024?—A. That is right.

Q. And, in addition to that, the profit for the year 1930 amounted to $588,922.59?—A. Yes.

Q. And that was capitalized and added or was included in the $3,195,000 by which the capital stock was increased?—A. Yes, that is quite right, but I do not think you can add it there and also add it into your profits.

Q. I quite appreciate that, but I wanted to show where that $588,000 appears?—A. It disappeared into capital.

Q. Now, did the profits of this company decline in proportion to the drop in volume of sales?—A. No, they maintained a better profit in relation to sales in the last two or three years.

Q. Yes, notwithstanding the depression period they made a higher rate of profit?—A. Yes.

Q. How did they do that, Mr. Nash?—A. Well, I think we can take it perhaps in two or three ways. They had a little higher mark-up on their business.

Q. That is, they increased the margin of profit?—A. Yes, the gross margin.

Q. They increased the gross margin of profit to the public?—A. Yes.

Q. By increasing their mark-up on the sale of goods to the public?—A. That is right.

Q. That is one way. And secondly?—A. They had a reduction in wages.

Q. There was a 10 per cent reduction in wages?—A. Yes.

By Mr. Heaps:

Q. What did that 10 per cent reduction amount to?—A. About $100,000 a year, Mr. Heaps.

By Mr. Sommerville:

Q. About $100,000 a year, and those were two sources of improvement in that profit situation?—A. Yes.

Q. Did they at any time call upon any of their reserves to maintain wages? —A. No, I cannot say that.

Q. Or did they at any time call upon their reserves to maintain their mark-up to the public as it had been prior to the period of depression?—A. No, I cannot find any trace of that.

Q. Then will you give me some examples of the increased mark-ups to the public?—A. Take boots and shoes. The mark-up in 1931 was 43·5 per cent, and in 1934 it was 49.7 per cent.

Q. Yes?—A. Boys' clothing went up from 32·8 per cent to 35·6 per cent; dry goods went up from 38·48 to 49·36 per cent; furniture came down.

By Mr. Heaps:

Q. In regard to the increased mark-up, did the price of their goods come down from the wholesaler to the retailer, or was it the retailer marking up his price to the consumer?—A. All we can speak of is the increased mark-up. I cannot tell you whether the goods came down from the factory because there is no way of comparing the goods that were purchased in 1931 with 1933.

Mr. Sommerville: The sale price was increased by the spread.

Mr. Heaps: The price from the firm to the consumer increased.

Mr. SOMMERVILLE: The spread increased.

Mr. HEAPS: We have not got the cause of the spread.

Mr. SOMMERVILLE: You know now that the spread increased in the retail store.

Mr. HEAPS: Yes. If there was a reduction in the price from the wholesaler to the retailer it was not passed on to the consumer.

Mr. SOMMERVILLE: It was not passed on to the consumer. The wholesaler took it or the manufacturer took it, that is the indication here.

The WITNESS: Perhaps I can explain it Mr. Heaps, in this way: Take the grocery department, it went up from 19·72 to 22·40, that is, percentage of gross profit, and in 1931 they sold $1,757,000 of groceries and in 1933 they sold $1,530,000 of groceries, or $225,000 less, but their gross profit was only $2,000 less.

By Mr. Heaps:

Q. Was not there a reduction in the cost of commodities in that period?—A. Which would apply to both volume and commodity price.

By Mr. Young:

Q. You have no way of comparing the volume in those two years?—A. Not volume in pounds but in dollars.

By Mr. Sommerville:

Q. You have the volume in dollars?—A. That is all.

Q. But the point was that the spread was increased. What others?—A. In the case of the mantle department they increased the spread from 31·46 to 38·32. There again, in 1931 they sold $400,000 worth of mantles, and in 1933 they sold $300,000.

By Mr. Heaps:

Q. On that point, Mr. Nash, could you say how many mantles were sold?—A. No, there is no record kept to show how many mantles were sold, but they sold $100,000 less although they made as much or almost as much gross profit on the $300,000 as they previously had made on the $400,000. Mens' clothing, there was a reduction.

By Mr. Sommerville:

Q. Men's clothing, in 1932, 46·11 and in 1934 47·16 per cent?—A. A shade of an increase. And in toilet goods it went up very considerably.

By the Chairman:

Q. What was it?—A. Toilet goods, in 1931 24·44 per cent and in 1934 it was 45·96.

By Mr. Sommerville:

Q. In other words, they sold $92,000 worth of toilet goods in 1931 with a spread of 24·44 per cent, and in 1933 they sold $75,000 of toilet goods with a spread of 41 per cent?—A. Yes.

Q. And in 1934 they sold $67,000 worth of toilet goods with a spread of 45·96 per cent?—A. Yes.

By Mr. Kennedy:

Q. Do I understand there is a mark-up in men's clothing?—A. Yes, a slight mark-up in men's clothing.

Q. There has been a very considerable fall in the price of clothing generally?—A. We want to get our minds perfectly clear on that point. I am not speaking of the price of a man's suit, whether the price is $10 or $20.

Mr. HEAPS: It is the spread between what it cost this store and the cost to the consumer.

The CHAIRMAN: What I think Mr. Heaps is concerned about—and I confess it interests me too—is this: If there are figures that will show that the price from the manufacturer to the mercantile establishment—Woodward's—was less in 1934 it would be reasonable to assume that a wider margin of mark-up, that the diminution in cost was backed up and the cost to the factory—

The WITNESS: Mr. Chairman, we are going to have these figures.

The CHAIRMAN: In another category.

The WITNESS: Yes.

The CHAIRMAN: We will just keep that question in mind then.

Mr. SOMMERVILLE: Just for the benefit of the committee, we are dealing with the stores, and after we get through with the stores then we are coming back to the factories that supply those stores, and we will have a volume of information from them which will indicate the spread that has taken place and give a relative view of the way in which the manufacturer has been affected during these years which we are considering in the departmental stores.

The CHAIRMAN: That will answer your question, Mr. Heaps, and we will get it later on.

Mr. HEAPS: Yes, Mr. Chairman.

Mr. SOMMERVILLE: Thank you. I think that will cover the present examination.

Mr. HEAPS: I would like to ask one question arising out of the evidence of this morning, that is, with reference to the holidays that the departmental stores give to their employees. You told me that they gave holidays to their employees each year with pay.—A. I am not sure. I have wired my agents in Vancouver for that information.

Q. The reason I ask the question is because during the recess a gentleman who knows the firm in question fairly well was not quite sure on that point.—A. I intended to correct that and put it correctly whether it was or not.

By Mr. Sommerville:

Q. Now then, the record that is being filed with the committee as an exhibit is the record from which you have been taking these various figures?—A. Yes.

Q. And this is the correct reflection of the conditions found in the books of Woodward's?—A. It is actually taken from Woodward's books.

Mr. SOMMERVILLE: Now, we pass to a consideration at the present time of the David Spencer Limited store.

The CHAIRMAN: We will run through this in the same order that we did in the other.

DAVID SPENCER LIMITED

Consolidated Balance Sheets—For Eleven Years ending 31st January, 1934

	—	As at 31st January, 1934	As at 31st January, 1933	As at 31st January, 1932	As at 31st January, 1931
		$ cts.	$ cts.	$ cts.	$ cts.
	Assets				
1	Cash on hand and in Bank	82,050 77	58,746 70	77,400 00	81,987 53
2	Accounts Receivable	978,924 41	1,396,258 05	1,692,733 30	1,849,837 21
3	Less—Reserve	**24,622 83**	**24,622 83**	**24,622 83**	**24,622 83**
4	Inventories	1,559,875 16	1,455,145 09	1,733,287 10	2,109,141 86
5	Total	2,596,227 51	2,885,527 01	3,478,797 57	4,016,343 77
6	Stocks and Bonds	336,675 10	344,175 10	351,873 83	352,066 13
7	Sundry Loans and Investments	621,232 20	658,759 15	662,770 17	231,848 02
8	Directors' Accounts	94,018 16	130,665 28	121,500 22	126,426 46
9	Plant and Equipment:—				
	Furniture and Fixtures	669,685 27	665,034 02	664,332 62	659,133 46
10	Less—Reserve	**80,271 05**	**62,690 87**	**27,343 28**	**460,228 15**
11	Plant and Machinery	1,023,278 60	1,023,235 33	1,023,246 33	1,022,430 17
12	Less—Reserve	**176,913 17**	**137,893 87**	**59,286 46**	**554,767 93**
13	Automobiles	227,720 37	227,720 37	228,771 85	222,341 20
14	Less—Reserve	**21,707 22**	**14,320 69**	**6,330 06**	**200,782 68**
15	Total	1,641,792 80	1,701,084 29	1,823,391 00	688,126 07
16	Land and Buildings	8,632,445 89	8,609,420 68	8,607,673 79	5,376,251 80
17	Less—Reserve	**215,370,36**	**164,362 47**	**70,369 17**	**674,502 56**
18	Total	8,417,075 53	8,445,157 21	8,537,304 62	4,701,749 24
19	Prepaid Insurance	....	....	22,397 45	....
20	Sinking Fund	....	....	....	....
21	Unpaid on Shares	....	....	5 00	....
		13,707,021 30	14,165,348 04	14,998,039 86	10,116,559 69
	Liabilities				
22	Accounts Payable:—				
23	Bills Payable	63,902 76	55,902 46	82,866 99	97,999 18
24	Accounts Payable	459,695 79	349,465 59	361,652 86	426,506 31
25	Unpaid Wages	10,000 00	10,479 16	16,788 83	25,000 00
26	Deposit Account	499,696 96	234,607 22	52,683 59	113,853 28
27	Interest Accrued	36,075 07	43,185 56	38,396 68	43,738 65
28	Unpaid Dividends	....	....	5,100 00	2,100 00
29	Times Publishing Company	....	....	....	....
30	Tax accrued—Province	....	20,326 09	....	....
31		1,069,370 58	713,966 08	557,488 95	709,197 42
32	Bank Loans	443,373 64	1,196,384 49	1,847,395 59	2,060,460 71
33	Mortgages	1,407,050 00	1,417,750 00	1,489,500 00	1,541,500 00
34	Insurance Reserve	....	....	....	....
35	Capital Stock	11,000,005 00	11,000,005 00	11,000,005 00	200,000 00
36	Surplus Account	**212,777 92**	**162,757 53**	103,650 32	5,605,401 56
37		13,707,021 30	14,165,348 04	14,998,039 86	10,116,559 69

Losses are shown in **black type.**

DAVID SPENCER LIMITED

Consolidated Balance Sheets—For Eleven Years ending 31st January, 1934

As at 31st January, 1930	As at 31st January, 1929	As at 31st January, 1928	As at 31st January, 1927	As at 31st January, 1926	As at 31st January, 1925	As at 31st January, 1924	
$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
72,436 06	86,255 66	66,559 60	93,716 33	68,181 83	96,530 05	31,959 39	1
1,761,414 32	1,460,192 50	1,071,132 75	806,743 56	650,837 17	461,274 24	293,914 45	2
24,622 83	**24,622 83**	**24,622 83**	**24,622 83**	**24,622 83**	**24,622 83**	**24,622 83**	3
2,347,199 34	2,671,918 68	2,298,301 93	2,339,725 77	1,893,354 16	1,759,421 51	1,837,267 50	4
4,156,426 89	4,193,744 01	3,411,371 45	3,215,562 83	2,587,750 33	2,292,602 97	2,138,518 51	5
202,067 81	315,066 45	361,137 86	365,484 25	189,185 21	180,471 78	51,789 54	6
225,045 96	237,166 85	309,504 25	355,208 19	253,023 31	233,037 30	254,885 05	7
114,733 79	125,937 18	79,607 47	99,240 79	104,543 74	115,529 13	122,021 21	8
648,654 37	638,781 99	630,830 37	548,853 45	331,381 46	319,275 61	303,894 03	9
424,004 04	**369,229 53**	**306,368 14**	**246,628 36**	**211,668 76**	**179,661 41**	**147,733 86**	10
1,040,409 09	1,039,107 16	1,029,493 72	1,029,493 72	246,993 72	246,993 72	247,093 72	11
477,305 89	**373,745 07**	**270,564 73**	**167,615 37**	**141,666 01**	**116,966 65**	**92,267 29**	12
221,334 33	190,787 72	168,024 83	140,234 63	136,468 15	116,281 80	98,843 22	13
194,228 26	**187,845 23**	**162,390 42**	**129,638 73**	**115,034 05**	**90,831 64**	**67,053 35**	14
814,859 60	937,857 04	1,089,025 63	1,174,699 34	246,474 51	295,091 43	342,776 47	15
5,394,237 89	5,365,167 69	5,268,876 77	5,044,526 26	3,550,487 42	3,037,157 24	3,041,741 13	16
580,399 63	**484,220 21**	**389,215 19**	**321,702 29**	**266,917 84**	**214,695 89**	**168,173 94**	17
4,813,838 26	4,880,947 48	4,879,661 58	4,722,823 97	3,283,569 58	2,822,461 35	2,873,567 19	18
							19
....	....	....	50,040 00	47,538 00	45,036 00	42,534 00	20
....	....	....	....	....	....	....	21
10,326,972 31	10,690,719 01	10,130,308 24	9,983,059 37	6,712,084 68	5,984,229 96	5,826,091 97	22
158,404 12	170,125 61	164,489 40	141,304 76	99,949 58	85,761 39	71,848 78	23
462,055 50	721,405 90	648,591 44	785,191 51	639,800 38	589,730 33	525,866 27	24
25,641 31	25,609 99	24,849 57	24,665 55	20,476 60	18,458 70	15,328 69	25
85,896 08	121,795 66	107,799 94	88,983 91	125,117 34	88,200 08	63,468 87	26
42,249 44	2,100 00	44,126 27	....	....	....	2,990 00	27
2,100 00	2,400 00	1,500 00	1,200 00	2,990 00	1,790 00	....	28
....	....	17,000 00	....	....	....	....	29
....	....	....	....	....	....	....	30
776,346 45	1,043,437 16	1,008,356 62	1,041,345 73	888,333 90	783,940 50	679,502 61	31
2,126,905 06	2,562,808 30	2,371,887 01	3,555,916 38	314,106 69	11,181 23	312,301 34	32
1,593,500 00	1,701,731 70	1,743,731 70	449,500 00	624,500 00	474,500 00	498,500 00	33
....	....	....	9,944 91	9,944 91	9,944 91	....	34
200,000 00	200,000 00	200,000 00	200,000 00	200,000 00	200,000 00	200,000 00	35
5,630,220 80	5,182,741 85	4,806,332 91	4,726,352 35	4,675,199 18	4,504,663 32	4,135,788 02	36
10,326,972 31	10,690,719 01	10,130,308 24	9,983,059 37	6,712,084 68	5,984,229 96	5,826,091 97	37

DAVID SPENCER LIMITED

Consolidated Trading Accounts—for ten Years ending 31st January, 1934

		Year ending 31st January, 1934	Year ending 31st January, 1933	Year ending 31st January, 1932	Year ending 31st January, 1931
		$ cts.	$ cts.	$ cts.	$ cts.
1	Inventory—January 31st	1,354,292 18	1,536,375 65	1,795,125 81	1,848,625 38
2	Purchases	6,883,333 00	6,900,738 59	8,832,690 91	10,557,582 22
		8,237,625 18	8,437,114 24	10,627,816 72	12,406,207 60
3	Inventory—Closing	1,370,022 01	1,354,292 18	1,536,375 65	1,795,125 81
4	Cost of Sales	6,867,603 17	7,082,822 06	9,091,441 07	10,611,081 79
5	Sales	9.507,570 15	9,769,282 79	12,641,039 70	14,826,870 14
6	Gross Profit	2,639,966 98	2,686,460 73	3,549,598 63	4,215,788 35
7	Other Income Demonstration	14,156 23	16,422 68	26,225 22	27,086 90
8	Discount, etc	25,555 10	33,560 08	39,668 07	64,406 21
	Total	2,679,678 31	2,736,443 49	3,615,491 92	4,307,281 46
	Departmental Expense:—				
9	Department Expense	131,146 34	147,431 55	185.805 80	198,780 54
10	Salaries	1,431,998 63	1.558,455 49	1,960,281 06	2,264,634 32
11	Advertising	244,016 07	273,924 41	377,649 90	389,752 85
12	Delivery	44,667 67	49,342 26	53,073 66	82,175 36
13	Prepaid Freights	14,453 70	18,800 13	24,394 44	27,126 61
14	Paper, Twine, Stationery, Supplies	70,836 87	74,995 50	103,931 73	124,589 14
15	Travelling	34,550 33	28,873 82	52,433 35	52,581 27
		1,971,669 61	2,151,823 16	2,757,569 94	3,139,640 09
	Administration:—				
16	Directors' Salaries	30,000 00	50,000 00	86,666 66	145,000 00
17	Interest, Discount and Exchange	17,941 22	9,127 93	19,745 74	14,883 79
18	Bad Debts	127,656 62	131,973 09	108,578 76	87,363 72
19	Donations	7,751 04	3,977 44	9,791 03	12,670 00
20	General Expense	31,138 36	45,272 77	35,823 69	51,700 25
21	Legal Expense	11,515 97	19,756 61	32,718 08	26,892 42
22	Maintenance	125,093 77	124,928 91	137,108 49	171,278 54
23	Insurance—Fire	31,458 72	35,454 59	65,178 40	56,631 75
24	Sickness Account	90 00	595 72	712 44	996 04
25	Telephone and Telegraph	19,284 60	19,350 00	20,024 32	21,219 10
26	Depreciation—Auto 20%	7,386 53	7,990 63	8,376 36	13,253 96
27	Furniture and Fixtures 10%	17,580 18	35,347 59	36,387 99	36,365 56
28	Dairy Machinery 10%	525 32	1,041 44	1,023 04	6,039 73
		427,422 33	484,816 72	562,135 00	644,294 92
29	To General Profit and Loss Accounts	280,586 37	99,803 61	295,786 98	523,346 45
		2,679,678 31	2,736,443 49	3,615,491 92	4,307,281 46

DAVID SPENCER LIMITED

CONSOLIDATED TRADING ACCOUNTS—FOR TEN YEARS ENDING JANUARY 31st, 1934

Year ending 31st January, 1930	Year ending 31st January, 1929	Year ending 31st January, 1928	Year ending 31st January, 1927	Year ending 31st January, 1926	Year ending 31st January, 1925	Total for Ten Years ending 31st January, 1934	
$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
2,043,991 90	1,807,647 13	1,798,703 78	1,489,282 37	1,433,192 29	1,486,019 57	1,486,019 57	1
11,306,685 31	12,215,528 06	10,983,500 64	9,838,162 41	8,351,374 79	7,542,221 72	93,411,817 65	2
13,350,677 21	14,023,175 19	12,782,204 42	11,327,444 78	9,784,567 08	9,028,241 29	94,897,837 22	
1,848,625 38	2,043,991 90	1,807,647 13	1,798,703 78	1,489,282 37	1,433,192 29	1,370,022 01	3
11,502,051 83	11,979,183 29	10,974,557 29	9,528,741 00	8,295,284 71	7,595,049 00	93,527,815 21	4
16,252,893 61	16,406,632 85	14,926,868 39	12,837,641 36	11,288,782 05	10,418,217 99	128,875,799 03	5
4,750,841 78	4,427,449 56	3,952,311 10	3,308,900 36	2,993,497 34	2,823,168 99	35,347,983 82	6
26,089 65	32,393 43	30,749 07	26,985 76	20,490 08	44,182 16	264,781 18	7
31,188 74	36,729 99	53,858 23	54,141 08	37,782 42	79,733 79	456,623 71	8
4,808,120 17	4,496,572 98	4,036,918 40	3,390,027 20	3,051,769 84	2,947,084 94	36,069,388 71	
209,464 81	214,261 45	204,317 10	194,086 06	212,319 60	174,398 04	1,872,011 29	9
2,241,610 16	2,106,359 22	1,943,492 00	1,700,646 38	1,492,664 18	1,408,997 65	18,109,139 09	10
365,506 69	350,037 21	342,205 31	257,235 75	254,682 75	215,799 74	3,070,810 68	11
71,041 10	54,691 16	59,315 41	63,968 82	56,182 84	52,689 47	587,147 75	12
35,320 00	27,047 80	20,086 92	14,807 93	13,861 75	11,470 39	207,369 67	13
127,556 25	125,080 51	108,612 29	93,332 12	85,375 21	66,910 38	981,220 00	14
54,526 71	61,995 96	62,924 51	50,106 90	41,904 06	31,134 75	471,031 66	15
3,105,025 72	2,939,473 31	2,740,953 54	2,374,183 96	2,156,990 39	1,961,400 42	25,298,730 14	
145,000 00	145,000 00	145,000 00	142,000 00	148,000 00	94,088 40	1,130,755 06	16
36,030 72	19,752 33	49,020 38	93,479 89	15,267 63	36,514 15	311,763 78	17
64,609 38	32,742 44	29,123 84	23,996 65	39,181 49	20,902 89	666,128 88	18
12,671 35	7,582 50	11,984 30	12,479 70	5,451 25	13,512 50	97,871 11	19
51,689 15	59,587 12	47,545 07	52,587 72	47,812 76	52,762 91	475,919 80	20
15,380 89	10,156 08	8,121 53	3,634 00	8,367 59	3,743 43	140,286 60	21
220,052 79	177,744 55	198,806 73	178,370 35	123,665 03	106,451 30	1,563,500 46	22
64,830 96	77,108 86	69,823 72	70,656 12	45,067 34	25,824 84	542,035 30	23
1,128 25	2,157 57	3,005 88	5,238 81	1,474 64	2,092 21	17,491 56	24
19,670 22	18,400 38	17,259 66	26,304 82	12,685 01	10,630 87	184,829 04	25
6,383 03	25,454 81	32,751 69	28,046 92	24,202 41	23,778 29	177,624 63	26
54,774 51	62,861 39	59,739 78	42,128 71	31,685 93	31,210 64	408,082 28	27
4,895 32	3,642 97	....	....	321 42	716 91	18,206 15	28
697,116 57	642,191 00	672,182 58	678,923 69	503,182 50	422,229 34	5,734,494 65	
1,005,977 88	914,908 67	623,782 28	336,919 55	391,596 95	563,455 18	5,036,163 92	29
4,808,120 17	4,496,572 98	4,036,918 40	3,390,027 20	3,051,769 84	2,947,084 94	36,069,388 71	

DAVID SPENCER LIMITED

Consolidated General Profit and Loss Accounts—For Ten Years ending 31st January, 1934

	—	Year ending 31st January, 1934	Year ending 31st January, 1933	Year ending 31st January, 1932	Year ending 31st January, 1931
		$ cts.	$ cts.	$ cts.	$ cts.
	Credits				
1	Profit from Store Operation	280,586 37	99,803 61	295,786 98	523,346 45
2	Sundry Rents	**21,790 79**	**18,581 38**	43,615 59	**18,023 56**
3	Interest from Investments	19,074 78	30,177 39		3,898 66
4	Sundry Rents—Vancouver	12,904 21	12,733 21		13,355 41
5	Rents—Arcade, Victoria	21,715 84	22,179 72		31,469 36
6	Rents—Times Building	6,576 46	7,559 62		8,511 11
7	Times Printing Dividend		3,000 00	12,000 00	17,000 00
8	Thompson Elliott				
9		319,066 87	156,872 17	351,402 57	579,557 43
	Debits				
10	Municipal Taxes	109,686 59	113,879 30	111,072 17	100,605 71
11	Dominion and Provincial Taxes			52,084 43	76,291 27
12	Life Insurance	21,724 45	49,874 95	54,015 30	45,908 15
13	Interest on Mortgages	126,572 49	172,610 78	198,923 63	202,580 46
14	Fire Insurance on Building	10,608 59	17,145 95	17,149 88	11,218 71
15	Depreciation	86,391 55	171,516 52	171,832 71	175,710 50
16	Dividend		7,854 00	20,363 00	14,690 00
17	Dividend—Special		8,494 01	10,511 01	17,113 08
18	Balance to Surplus	**35,916 80**	**384,503 34**	**284,549 56**	**64,560 45**
19		319,066 87	156,872 17	351,402 57	579,557 43

Surplus Account

	—	As at 31st January, 1934	As at 31st January, 1933	As at 31st January, 1932
		$ cts.	$ cts.	$ cts.
1	Balance at beginning of year	**162,757 53**	103,650 32	5,605,401 56
2	Net Profit for year	**35,916 80**	**384,503 34**	**284,549 56**
3	Profit on Sale of Sundry Properties		292 53	
4	Life Insurance		135,650 40	
5	Profit—W. F. Evans			
6		**198,674 33**	**144,910 09**	5,320,852 00
	Deduct:—			
7	Transferred to Share Capital at date of re-organization in 1931			5,217,046 68
8	Loss on Investments		293 65	155 00
9	Provincial Government Tax—1924-30		17,553 79	
10	Advances on Dividends	14,103 59		
11	J. V. N. Spencer—House Account			
12		14,103 59	17,847 44	5,217,201 68
13	Balance at end of Year	**212,777 92**	**162,757 53**	103,650 32

Losses are shown in **black type.**

DAVID SPENCER LIMITED

Consolidated General Profit and Loss Accounts—For Ten Years ending 31st January, 1934

Year ending 31st January, 1930	Year ending 31st January, 1929	Year ending 31st January, 1928	Year ending 31st January, 1927	Year ending 31st January, 1926	Year ending 31st January, 1925	Total for Ten years ending 31st January, 1934	
$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
1,005,977 88	914,908 67	623,782 28	336,919 55	391,596 95	563,455 18	5,036,163 92	1
18,669 60	**4,236 48**	**704 75**	5,015 67	9,138 09	15,247 16	**8,990 05**	2
9,830 45	5,674 89	6,634 69	8,590 51	7,412 83	5,050 34	96,344 54	3
14,669 19	14,852 07	13,362 13	....	....	....	81,876 22	4
30,842 26	19,746 56	22,355 03	25,658 27	22,829 85	19,707 85	216,504 74	5
8,044 27	7,215 81	7,118 48	6,556 64	6,365 21	5,164 68	62,112 28	6
29,000 00	57,000 00	....	15,000 00	30,000 00	35,000 00	198,000 00	7
15,000 00	....	....	....	....	....	15,000 00	8
1,094,694 45	1,015,161 52	672,547 86	397,740 64	467,342 93	643,625 21	5,698,011 65	9
97,287 44	81,937 87	75,296 59	60,775 86	59,963 66	49,515 19	860,020 38	10
41,117 89	28,228 67	41,920 21	62,041 10	72,420 21	69,251 34	443,355 12	11
51,767 66	47,048 45	46,403 93	51,193 78	27,905 25	26,473 40	422,315 32	12
209,294 51	218,016 70	223,278 24	45,314 17	13,303 00	13,295 23	1,423,189 21	13
16,830 30	22,208 42	20,915 70	10,252 00	15,859 16	5,854 02	148,042 73	14
198,116 76	196,542 06	197,099 91	81,471 46	76,921 31	71,221 31	1,426,824 09	15
14,690 00	14,690 00	14,690 00	14,690 00	14,690 00	14,690 00	131,047 00	16
21,060 56	29,263 82	15,620 57	19,905 04	14,944 48	14,285 05	151,197 62	17
444,529 33	377,225 53	37,322 71	52,097 23	171,335 86	379,039 67	692,020 18	18
1,094,694 45	1,015,161 52	672,547 86	397,740 64	467,342 93	643,625 21	5,698,011 65	19

Surplus Account

As at 31st January, 1931	As at 31st January, 1930	As at 31st January, 1929	As at 31st January, 1928	As at 31st January, 1927	As at 31st January, 1926	As at 31st January, 1925	
$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
5,630,220 80	5,182,741 85	4,806,332 91	4,726,352 35	4,675,199 18	4,504,663 32	4,135,788 02	1
64,560 45	444,529 33	377,225 53	37,322 71	52,097 23	171,335 86	379,039 67	2
39,741 21	....	**816 59**	42,657 85	**941 06**	**800 00**	....	3
....	....	....	....	....	....	....	4
....	2,949 62	....	....	....	....	....	5
5,605,401 56	5,630,220 80	5,182,741 85	4,806,332 91	4,726,352 35	4,675,199 18	4,514,827 69	6
....	....	....	....	....	....	....	7
....	....	....	....	....	....	....	8
....	....	....	....	....	....	....	9
....	....	....	....	....	....	....	10
....	....	....	....	....	....	10,164 37	11
....	....	....	....	....	....	10,164 37	12
5,605,401 56	5,630,220 80	5,182,741 85	4,806,332 91	4,726,352 35	4,675,199 18	4,504,663 32	13

DAVID SPENCER LIMITED

(Vancouver Store)

DEPARTMENTAL OPERATING STATEMENTS FOR YEAR ENDING 31ST JANUARY, 1934

Dept.	Description	Sales	Inventory at 1st February, 1933	Purchases	Inventory at at 31st January, 1934	Cost of Sales	Gross Profit	Mark-up	Expenses per Company's Records	Net Department Profit or **Loss per** Company's Records
		$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	%	$ cts.	$ cts.
A 1	5-10-25 Store	40,412 89	8,646 54	29,530 31	10,456 31	27,720 54	12,692 35	45·7	15,199 71	**2,507 36**
1	Umbrellas	13,605 64	1,786 31	10,156 39	2,847 86	9,094 84	4,510 80	49·5	2,769 68	1,741 12
2	Men's Furnishings	195,581 60	51,395 91	144,529 51	54,528 86	141,396 56	54,185 04	38·3	52,261 64	1,923 40
3	Ladies' Hose	108,721 22	23,840 12	80,504 64	25,287 56	79,057 20	29,664 02	37·5	25,887 10	3,776 92
4	Patterns	4,374 14	5,754 93	3,468 98	5,765 27	3,458 64	915 50	26·4	4,426 31	**3,510 81**
5	Dress Goods	23,321 76	8,631 36	12,857 04	5,694 80	15,793 60	7,528 16	47·6	7,189 64	338 52
6	Silks and Velvets	57,121 02	13,831 24	41,570 44	16,028 88	39,372 80	17,748 22	45·1	14,336 40	3,411 82
7	Linens	52,618 19	23,004 03	29,440 65	16,874 03	35,570 65	17,047 54	47·9	16,764 62	282 92
8	Notions	45,653 69	17,329 21	29,834 23	17,334 86	29,828 58	15,825 11	53·0	16,393 73	**568 62**
9	Laces, Trimmings	10,873 64	7,323 75	4,602 24	5,741 63	6,184 36	4,689 28	75·8	4,510 98	178 30
10	Fancy Work	62,798 23	11,547 55	43,617 15	12,379 09	42,785 61	20,012 62	46·7	16,202 96	3,809 66
11	Purses	18,813 28	6,121 79	11,445 33	4,379 19	13,187 93	5,625 35	42·6	4,549 84	1,075 51
12	Ladies' Handkerchiefs	7,014 91	2,804 19	4,152 25	2,739 91	4,216 53	2,798 38	66·3	2,931 13	**132 75**
13	Ladies' Gloves	39,452 20	19,803 25	24,996 26	17,441 45	27,358 06	12,094 14	44·2	11,780 63	313 51
14	Candy	71,005 74	3,390 08	50,174 79	3,859 56	49,705 31	21,300 43	42·8	16,762 90	4,537 53
15	Books	71,568 65	25,618 69	51,314 71	20,597 87	56,335 53	15,233 12	27·0	22,493 14	**7,260 02**
16	Drugs	157,586 31	33,160 61	118,386 85	40,436 68	111,110 78	46,475 53	41·8	36,632 09	9,843 44
17	Millinery	74,662 91	4,176 05	43,387 44	3,400 44	44,163 05	30,499 86	69·0	24,852 97	5,646 89
18	Thrift Shop	81,471 05	5,388 59	56,439 19	5,399 93	56,427 85	25,043 20	44·3	24,530 66	512 54
19	Corsets	44,135 05	8,994 16	27,916 61	10,188 76	26,722 01	17,413 04	65·1	12,186 75	5,226 29
20	Ladies' Underwear	75,961 65	17,608 17	48,658 01	17,441 65	48,824 53	27,137 12	55·5	20,509 40	6,627 72
21	Ladies' Sportwear	82,679 14	10,232 35	58,703 99	10,931 97	58,004 37	24,674 77	42·5	18,763 59	5,911 18
22	Ladies' Coats	132,675 97	9,918 79	99,056 93	13,092 58	95,883 14	36,792 83	38·3	33,926 33	2,866 50
23	Carpets	64,337 98	24,992 54	32,057 64	11,975 53	45,074 65	19,263 33	42·7	20,371 18	**1,107 85**
24	Draperies	95,698 15	46,077 83	54,581 03	36,111 03	64,547 83	31,150 32	48·2	35,935 54	**4,785 22**
26	China	58,344 79	31,406 73	31,984 31	27,613 95	35,777 09	22,567 70	63·1	26,936 88	**4,369 18**
26 B	China	6,383 57	1,785 44	4,083 60	1,548 15	4,320 89	2,062 68	47·7	1,805 48	257 20
27	Stoves	28,285 42	2,713 67	20,072 39	2,325 05	20,461 01	7,824 41	38·2	7,774 90	49 51
28	Kitchenware	48,181 14	12,943 80	31,961 71	12,396 56	32,508 95	15,672 19	48·2	16,949 56	**1,277 37**
28 B	Kitchenware	6,423 09	1,421 59	4,372 40	1,032 01	4,761 98	1,661 11	34·8	1,477 18	183 93
29	Furniture	148,360 99	88,639 75	86,524 87	66,960 66	108,203 96	40,157 03	37·1	57,692 15	**17,535 12**
30	Wallpaper	14,294 92	8,187 33	6,866 85	6,664 83	8,389 35	5,905 57	70·3	5,755 85	149 72
31	Toys	29,041 15	8,674 46	14,264 49	3,081 58	19,857 37	9,183 78	46·2	10,454 68	**1,270 90**

32	Ladies' Shoes	65,901 32	13,802 89	50,821 32	17,557 60	47,066 61	18,834 71	40·0	19,845 26	**1,010 55**
33	Men's Clothing	100,269 08	20,734 05	70,201 41	17,730 17	73,205 29	27,063 79	36·9	26,382 80	680 99
34	Sporting Goods	51,360 51	11,917 92	32,655 87	9,355 80	35,217 99	16,142 52	45·8	16,009 72	132 80
42	Greeting Cards	23,021 87	5,518 19	11,354 71	2,667 15	14,205 75	8,816 12	62·1	5,862 57	2,953 55
45	Paints	41,634 74	5,881 31	27,645 71	3,958 64	29,568 38	12,066 36	40·8	13,284 98	**1,218 62**
46	Seeds	16,962 82	1,535 92	10,325 03	3,313 03	8,547 92	8,414 90	98·6	6,416 55	1,998 35
47	Pictures	10,270 24	7,823 79	4,904 91	6,330 63	6,398 07	3,872 17	60·5	4,380 63	**508 46**
48	Builders Hardware	45,481 69	19,518 67	28,831 15	17,454 27	30,895 55	14,586 14	47·2	17,719 66	**3,133 52**
49	Jewelry	25,845 66	21,695 04	14,155 86	18,496 07	17,354 83	8,490 83	48·9	14,424 69	**5,933 86**
50	Boys' Clothing	35,516 50	7,157 23	25,582 46	8,673 17	24,066 52	11,449 98	47·5	11,066 24	383 74
51	Ladies' Blouses	14,132 62	2,831 56	10,224 52	2,918 57	10,137 51	3,995 11	39·4	4,670 19	**675 08**
52	Neckwear	5,489 75	1,304 51	3,118 16	958 53	3,464 14	2,025 61	58·4	2,120 82	**95 21**
53	Ribbons	7,011 47	4,172 49	3,141 65	3,635 76	3,678 38	3,333 09	90·6	3,407 37	**74 28**
54	Scarves	13,663 90	3,318 66	9,269 30	3,492 76	9,095 20	4,568 70	50·2	4,453 93	114 77
56	Trunks and Bags	15,456 50	2,379 23	10,851 70	2,236 34	10,994 59	4,461 91	40·5	3,779 43	682 48
57	Men's Hats	17,807 12	3,817 57	12,314 40	3,813 21	12,318 76	5,488 36	44·5	4,913 18	575 18
60	Watch Repairing	5,150 00	....	2,950 18	....	2,950 18	2,199 82	74·6	1,272 58	927 24
62	Cutlery	32,748 68	18,141 61	23,491 31	19,797 44	21,835 48	10,913 30	49·2	10,526 98	386 22
65	Curios	4,622 97	4,347 73	1,271 61	2,697 73	2,921 61	1,701 36	58·2	2,117 89	**416 53**
66	Cameras	16,045 26	5,666 37	6,812 35	4,602 43	7,876 29	8,168 97	103·7	5,273 95	2,895 02
67	Baby Shop	22,659 11	6,306 04	15,375 70	6,789 29	14,892 45	7,766 66	52·1	8,144 73	**378 07**
68	Girls' Wear	49,024 80	7,883 81	32,830 35	7,427 52	33,286 64	15,738 16	47·3	16,245 96	**507 80**
69	Men's Shoes	66,365 96	15,612 79	43,339 50	13,765 16	45,187 13	21,178 83	46·8	18,113 20	3,065 63
70	Stationery	63,037 95	18,537 81	39,448 65	17,796 72	40,189 74	22,848 21	56·8	22,236 21	612 00
73	Electrical Fittings	20,521 43	5,672 51	11,296 12	3,838 39	13,130 24	7,391 19	56·2	5,161 10	2,230 09
76	Burnt Leather	3,302 26	226 56	1,648 73	75 55	1,799 74	1,502 52	83·4	1,047 66	454 86
79	Youths' Clothing	30,542 63	6,341 92	20,025 23	4,928 75	21,438 40	9,104 23	42·4	6,671 41	2,432 82
81	Beds	80,500 38	4,242 19	58,459 62	3,972 06	58,729 75	21,770 63	37·0	22,544 12	**773 49**
82	Linoleum	53,056 24	12,904 04	35,147 27	10,029 91	38,021 40	15,034 84	39·5	16,203 90	**1,169 06**
87	Oriental Rugs	19,443 13	31,821 68	5,040 01	21,792 00	15,069 69	4,373 44	29·0	9,463 45	**5,090 01**
88	Boys' Furnishings	48,875 16	13,394 27	33,647 01	12,228 26	34,813 02	14,062 14	40·4	13,693 76	368 38
89	Window Shades	13,740 38	2,320 59	10,631 99	2,843 98	10,108 60	3,631 78	35·9	3,436 86	194 92
90	Mail Order Shoes	15,853 66	....	11,734 77	707 20	11,027 57	4,826 09	43·7	4,654 81	171 28
93	Children's Shoes	31,771 43	7,622 42	22,498 70	7,575 55	22,545 57	9,225 86	40·9	9,344 91	**119 05**
94	Chateleine Patterns	135 06	....	251 64	142 34	109 30	25 76	23·6	13 61	12 15
95	Flapper Shop	72,919 35	4,670 07	48,318 38	4,272 52	48,715 93	24,203 42	49·6	15,331 77	8,871 65
96	Interior Decorator	25,096 47	9,515 45	18,369 36	7,303 61	20,581 20	4,515 27	21·9	2,472 05	2,043 22
97	French Room	15,681 67	5,598 37	13,447 03	5,194 02	13,851 38	1,830 29	13·2	4,098 78	**2,268 49**
98	Tobacco	70,639 55	13,008 38	57,197 94	13,053 71	57,152 61	13,486 94	23·6	13,939 16	**452 22**
99	Downstairs Store	418,797 11	44,518 64	339,697 45	64,612 92	319,603 17	99,193 94	31·3	92,947 39	6,246 55
100	Contracts	4,754 07	....	4,607 56	....	4,607 56	146 51	3·2	1,107 13	**960 62**
101	Not Nu Furniture	42,568 36	2,700 76	27,296 63	4,193 96	25,803 43	16,764 93	64·9	12,514 76	4,250 17
102	Magazines	13,954 29	540 41	11,388 88	623 74	11,305 55	2,648 74	23·4	1,782 85	865 89
104	Beauty Salon	31,663 59	....	....	....	....	31,663 59	....	27,210 45	4,453 14
105	Cosmetics' Counter	1,737 63	614 50	1,351 11	898 72	1,066 89	670 74	62·8	273 70	397 04
106	Dresses	43,617 26	9,253 44	33,571 12	5,773 81	37,050 75	6,566 51	17·7	15,845 51	**9,279 00**
107	Bedding	132,794 50	39,395 69	89,838 48	38,511 01	90,723 16	42,071 34	46·3	37,393 25	4,678 09
108	Wash Goods	45,567 91	8,515 01	29,255 37	7,764 47	30,005 91	15,562 00	51·8	12,035 21	3,526 79
109	Library	4,397 56	604 75	1,595 80	666 25	1,534 30	2,863 26	186·6	1,520 07	1,343 19

Losses are shown in black type.

DAVID SPENCER LIMITED

(Vancouver Store)

Departmental Operating Statements for Year Ending 31st January, 1934

Dept.	Description	Sales	Inventory at 1st February, 1933	Purchases	Inventory at 31st January, 1934	Cost of Sales	Gross Profit	Mark-up	Departmental Expenses per Company's Records	Net Department Profit or **Loss** per Company's Records
		$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	%	$ cts.	$ cts.
110	Coal	27,192 51	....	24,031 13	....	24,031 13	3,161 38	13·1	1,520 77	1,640 61
115	Optical	9,017 28	1,650 80	3,773 60	1,570 09	3,854 31	5,162 97	133·9	4,286 06	876 91
116	Premier Vacuum	2,461 15	....	2,153 79	....	2,153 79	307 36	14·2	5 58	301 78
117	Downstairs Shoes	116,109 17	7,806 57	87,601 43	10,090 39	85,317 61	30,791 56	36·1	23,030 48	7,761 08
119	Sewing Machines	4,047 40	....	4,298 05	2,003 16	2,294 89	1,752 51	76·3	1,895 04	**142 53**
121	Lamps	14,663 26	4,396 82	8,042 76	2,811 78	9,627 80	5,035 46	52·3	5,196 41	**160 95**
125	Boys' Shoes	14,347 31	3,113 01	9,926 29	2,719 47	10,319 83	4,027 48	39·0	4,482 47	**454 99**
127	Greta Ann Candies	11,424 94	279 82	7,579 58	217 92	7,641 48	3,783 46	49·5	4,041 33	**257 87**
130	Robson Street Store	4,628 00	....	3,304 65	380 98	2,923 67	1,704 33	58·2	1,963 00	**258.67**
N.W.K.	Kitchenware	10,104 33	2,295 13	7,026 37	1,973 78	7,347 72	2,756 61	37·5	2,120 82	635 79
N.W.H.	Hardware	17,735 63	5,850 14	12,269 05	5,127 53	12,991 66	4,743 97	36·5	3,639 87	1,104 10
N.W.P.	Paint	13,351 73	1,663 96	9,759 41	1,714 46	9,708 91	3,642 82	37·5	1,897 03	1,745 79
N.W.T.	Tobacco	15,525 21	843 12	13,001 97	893 52	12,951 57	2,573 64	19·8	1,665 71	907 93
4 C	Candy	347 46	....	401 96	126 63	275 33	72 13	26·2	146 39	**74 26**
4 D	Drugs	707 79	....	2,095 79	1,599 93	495 86	211 93	42·7	162 69	49 24
4 S	Stationery	265 29	....	559 99	329 05	230 94	34 35	14·8	171 74	**137 39**
4 T	Tobacco	295 37	....	471 93	248 64	223 29	72 08	32·3	12 78	59 30
		4,225,095 51	1,008,437 02	2,885,044 99	940,836 54	2,952,645 47	1,272,450 04	......	1,220,630 96	51,819 08
35	Bakery	168,407 70	2,086 06	116,446 46	2,930 92	115,601 60	52,806 10	45·6	37,219 99	15,586 11
38	Greta Ann Factory	9,897 28	....	9,212 66	1,608 94	7,603 72	2,293 56	30·1	3,582 95	**1,289 39**
75	Tea and Coffee	61,690 04	13,704 57	59,048 28	20,858 65	51,894 20	9,795 84	18·8	5,335 34	4,460 50
77	Candy Factory	22,466 10	2,025 48	11,118 09	1,790 98	11,352 59	11,113 51	98·0	9,679 05	1,434 46
80	Spice Factory	45,451 86	21,109 27	22,563 80	13,760 23	29,912 84	15,539 02	51·9	7,471 27	8,067 75
		307,912 98	38,925 38	218,389 29	40,949 72	216,364 95	91,548 03	....	63,288 60	28,259 43
37 118	Dining and Club Rooms	29,628 98	100 00	13,028 32	100 00	13,028 32	16,600 66	127·4	14,898 84	1,701 82
39	Peanuts	5,697 98	266 95	4,038 11	177 92	4,127 14	1,570 84	38·0	1,905 49	**331 65**
40	Creamery	22,043 22	39 47	13,540 59	41 23	13,538 83	8,504 39	62·8	4,066 24	4,438 15

41	Dairy Lunch	37,298 14	....	14,448 64	....	14,448 64	22,849 50	158·1	13,360 36	9,489 14
58	Bread and Cakes	137,757 28	818 92	104,228 54	879 67	104,167 79	33,589 49	32·2	21,796 36	11,793 13
59	Cheese	32,885 88	1,317 92	27,127 01	2,475 05	25,969 88	6,916 00	26·6	6,584 11	331 89
63	Self Service	469,785 89	18,036 74	407,020 81	16,411 16	408,646 39	61,139 50	14·9	46,071 69	15,067 81
64	Fruit and Vegetables	91,670 80	7,086 30	67,100 89	5,605 82	68,581 37	23,089 43	33·6	22,904 43	185 00
72	Grocery	7,309 25	1,625 76	5,232 84	1,511 72	5,346 88	1,962 37	36·7	3,295 42	**1,333 05**
84	City Grocery Packers	28,047 10	....	24,961 93	....	24,961 93	3,085 17	12·4	5,184 36	**2,099 19**
86	Soda Fountain	46,846 43	96 67	21,151 74	93 94	21,154 47	25,691 96	121·4	16,322 19	9,369 77
111	Wholesale Ice Cream	14,832 28	....	....	....	....	14,832 28	....	5,853 08	8,979 20
120	———	708 60	....	556 75	....	556 75	151 85	27·3	737 28	**585 43**
122	Mr. Jones' Cakes	8,080 11	....	5,659 84	....	5,659 84	2,420 27	42·8	1,386 59	1,033 68
124	———	....	8,782 00	....	8,782 00	....	....	....	81 36	**81 36**
126	———	15 04	....	....	....	....	15 04	....	16 77	**1 73**
210	M.O. Grocery Packers	102,926 11	7,245 36	90,124 14	9,891 84	87,477 66	15,448 45	17·6	19,959 62	**4,511 17**
		1,035,533 09	45,416 09	798,220 15	45,970 35	797,665 89	237,867 20	....	184,424 19	53,443 01
		5,568,541 58	1,092,778 49	3,901,654 43	1,027,756 61	3,966,676 31	1,601,865 27	....	1,468,343 75	133,521 52

Losses are shown in black type.

DAVID SPENCER LIMITED

(Victoria Store)

DEPARTMENTAL OPERATING STATEMENTS FOR YEAR ENDING 31ST JANUARY, 1934

Dept.	Description	Sales	Inventory 1st Feb., 1933	Purchases	Inventory 31st Jan., 1934	Cost of Sales	Gross Profit	Mark-up	Expenses per Company's Records	Net Department Profit or **Loss** per Company's Records
		$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	%	$ cts.	$ cts.
1	Umbrellas	3,891 86	467 00	2,374 62	386 00	2,455 62	1,436 24	58·4	684 41	751 83
2	Men's Furnishings	88,091 59	21,438 00	61,482 40	21,083 00	61,837 40	26,254 19	42·4	23,925 68	2,328 51
3	Ladies' Hosiery	71,083 82	11,422 00	52,626 37	13,926 00	50,122 37	20,961 45	41·8	13,472 98	7,489 47
4 & 94	Patterns	4,840 21	5,102 00	3,707 25	5,018 00	3,791 25	1,048 96	27·6	3,116 13	**2,067 17**
5	Dress Goods	15,898 28	4,859 00	8,389 78	3,427 00	9,821 78	6,076 50	61·8	5,307 39	76 91
6	Silks	34,288 83	15,678 00	18,308 91	10,212 00	23,774 91	10,513 92	44·2	11,734 15	**1,220 23**
7	Staples	108,674 08	33,403 00	79,793 93	32,445 00	80,751 93	27,922 15	34·5	31,074 98	**3,152 83**
8	Notions	23,205 18	4,594 00	12,992 11	3,853 00	13,733 11	9,472 07	68·9	6,511 36	2,960 71
9	Laces	4,857 19	4,153 00	2,336 35	3,647 00	2,842 35	2,014 84	70·9	1,815 02	199 82
10	Needlework	33,595 89	7,190 00	22,429 31	8,635 00	20,984 31	12,611 58	60·0	6,792 47	5,819 11
11	Bags	12,981 71	1,320 00	8,380 09	1,152 00	8,548 09	4,433 62	51·8	3,782 14	651 48
12	Handkerchiefs	4,236 56	225 00	2,453 98	152 00	2,526 98	1,709 58	67·6	873 17	836 41
13	Gloves	19,989 22	6,221 00	12,562 31	5,216 00	13,567 31	6,421 91	47·3	5,875 51	546 40
15	Books	31,350 81	11,255 00	23,731 09	10,978 00	24,008 09	7,342 72	30·5	7,482 22	**139 50**
16	Drugs	70,223 28	17,720 00	53,074 90	19,280 00	51,514 90	18,708 38	36·3	16,099 74	2,608 64
17	Millinery	28,196 25	708 00	18,680 72	556 00	18,832 72	9,363 53	49·7	9,410 72	**47 19**
18	Whitewear	22,014 99	3,283 00	15,905 54	3,841 00	15,347 54	6,667 45	43·4	5,596 34	1,071 11
19	Corsets	21,078 59	5,832 00	13,802 96	6,480 00	13,154 96	7,923 63	60·2	6,604 89	1,318 74
20	Ladies' Underwear	37,031 01	10,562 00	30,220 20	14,958 00	25,824 20	11,206 81	43·3	9,165 24	2,041 57
21	Sweaters	7,496 81	804 00	5,661 33	1,114 00	5,351 33	2,145 48	40·0	2,113 11	32 37
22	Mantles	96,868 26	4,655 00	71,208 10	3,798 00	72,065 10	24,803 16	34·4	29,191 44	**4,388 28**
23	Carpets	25,895 27	14,186 00	15,208 28	13,191 00	16,203 28	9,691 99	59·8	8,644 76	1,047 23
24	Draperies	69,189 67	24,534 00	52,212 95	32,810 00	43,936 95	25,252 72	57·4	24,950 01	302 71
26	China	19,717 64	13,699 00	2,784 89	4,620 00	11,863 89	7,853 75	66·2	6,475 25	1,378 50
27	Stoves	15,095 54	1,928 00	10,149 34	2,134 00	9,943 34	5,152 20	51·8	3,145 31	2,006 89
28	Hardware	60,424 69	9,156 00	44,423 51	13,489 00	40,090 51	20,334 18	50·7	14,808 35	5,525 83
29	Furniture	41,065 25	14,059 00	25,504 20	11,315 00	28,248 20	12,817 05	45·3	13,499 51	**682 46**
31	Toys	7,677 06	710 00	5,546 54	626 00	5,630 54	2,046 52	36·3	1,616 81	429 71
32	Ladies' Shoes	33,163 84	13,199 00	28,898 22	18,949 00	23,148 22	10,015 62	30·2	11,756 58	**1,740 96**
33	Men's Clothing	59,416 48	9,238 00	44,583 57	12,368 00	41,453 57	17,962 91	43·3	20,353 81	**2,390 90**
45	Paint	17,613 09	1,692 00	11,731 19	1,861 00	11,562 19	6,050 90	52·3	4,083 14	1,967 76

49	Silverware	6,108 01	3,390 00	3,801 55	2,848 00	4,343 55	1,764 46	40·0	2,339 53	**575 07**
50	Boy's Clothing	36,935 94	14,215 00	26,487 93	14,535 00	26,167 93	10,768 01	41·1	11,305 09	**537 08**
51	Blouses	7,061 12	471 00	4,978 81	496 00	4,953 81	2,107 31	42·5	1,272 07	835 24
52	Neckware	5,350 28	676 00	3,124 02	577 00	3,223 02	2,127 26	65·9	1,408 85	718 41
53	Ribbons	3,276 47	1,518 00	1,785 68	1,418 00	1,885 68	1,390 79	73·7	698 67	692 12
55	Flowers, artificial	48 54	68 00	....	39 00	29 00	19 54	65·5	17 21	2 33
56	Baggage	7,122 33	2,385 00	4,438 04	2,004 00	4,819 04	2,303 29	47·7	2,354 51	**51 22**
57	Men's Hats	10,784 78	2,080 00	8,390 33	2,733 00	7,737 33	3,047 45	39·3	3,324 50	**277 05**
67	Baby Wear	8,333 16	1,836 00	5,164 91	1,785 00	5,215 91	3,117 25	59·7	2,494 57	622 68
68	Children's Wear	18,665 06	3,806 00	13,618 79	3,949 00	13,475 79	5,189 27	38·5	5,234 34	**45 07**
69	Men's Shoes	22,221 53	8,829 00	12,120 14	6,053 00	14,896 14	7,325 39	49·1	5,334 04	1,991 35
70	Stationery	38,854 37	13,148 00	21,956 38	11,447 00	23,657 38	15,196 99	64·2	10,498 25	4,698 74
81	Beds & Mattresses	18,480 30	1,622 00	12,687 68	1,527 00	12,782 68	5,697 62	44·5	4,909 74	787 88
82	Linoleum	20,636 64	9,562 00	13,987 15	10,002 00	13,547 15	7,089 49	52·3	6,654 39	435 10
83	Children's Hosiery	7,093 57	5,511 00	4,097 60	5,315 00	4,293 60	2,799 97	65·2	2,228 81	571 16
84	Studio	14,368 37	7,946 00	10,567 34	8,134 00	10,379 34	3,989 03	38·4	5,441 83	**1,452 80**
86	Men's Shoes Bargain Highway	26,043 90	4,159 00	17,084 99	3,555 00	17,688 99	8,354 91	47·2	4,674 60	3,680 31
87	Oriental Rugs	3,248 20	4,774 00	6,048 93	8,631 00	2,191 93	1,056 27	48·1	1,329 62	**273 35**
99	Bargain Highway	43,681 77	6,222 00	32,164 31	4,807 00	33,579 31	10,102 46	30·0	13,490 53	**3,388 07**
101	Used Furniture	2,690 46	336 00	3,390 16	1,387 00	2,339 16	351 30	15·0	10 99	340 31
102	Men's Furnishings—Bargain Highway	24,265 89	5,832 00	18,106 37	6,668 00	17,270 37	6,995 52	40·5	8,173 92	**1,178 40**
109	Library	5,872 73	1,064 00	2,199 01	1,044 00	2,219 01	3,653 72	164·6	2,114 44	1,539 28
120	Liberty Shop	1,587 67	5,313 00	414 72	4,237 00	1,490 72	96 95	65·1	882 29	**785 34**
126	Weilers Crockery Bankrupt Stock	14,339 88	....	30,297 40	26,253 00	4,044 40	10,295 48	254·4	5,045 17	5,250 31
129	Weilers Furniture	3,990 43	....	9,370 98	6,433 00	2,937 98	1,052 45	35·8	953 80	98 65
132	Ladies Shoes Bargain Highway	50,112 47	7,148 00	34,478 86	6,923 00	34,703 86	15,408 61	44·4	9,996 18	5,412 43
181	Weilers Beds	456 70	....	1,023 41	702 00	321 41	135 29	42·0	160 37	**25 08**
37	Tea Room	16,773 31	....	11,861 43	....	11,861 43	4,911 88	41·4	6,464 12	**1,552 24**
42	Butter	179,536 01	2,229 30	150,636 50	1,392 57	151,473 23	28,062 78	18·5	17,218 18	10,844 60
43	Delicatessen	23,375 42	499 67	16,801 63	506 36	16,794 94	6,580 48	39·2	4,521 72	2,058 76
44	Bacon	40,809 39	534 04	31,309 65	758 44	31,085 25	9,724 14	31·3	7,907 48	1,816 66
58	Bakery	31,975 72	117 29	26,954 61	112 92	26,958 98	5,016 74	18·6	4,436 11	580 63
59	Cheese	18,071 01	994 51	14,038 64	1,432 70	13,600 45	4,470 56	32·9	2,428 43	2,042 13
63 & 72	Groceries	336,341 94	57,045 10	307,179 16	72,876 85	291,347 41	44,994 53	15·4	71,580 95	**26,586 42**
64	Fruit & Vegetables	35,306 54	2,606 10	31,301 12	1,898 19	32,009 03	3,297 51	10·3	7,831 74	**4,534 23**
85	Meats	206,227 55	2,397 82	141,942 21	3,850 16	140,489 87	65,737 68	46·8	46,264 13	19,473 55
103	Eggs	31,040 19	408 84	25,556 57	436 34	25,539 07	5,501 12	21·5	4,603 21	897 91
		2,410,240 60	452,035 67	1,820,541 95	508,286 53	1,764,291 09	645,949 51	....	595,566 00	50,383 51

Losses are shown in black type.

DAVID SPENCER LIMITED

(Vancouver Store)

STATEMENT OF TOTAL SALES, YEARS ENDING DECEMBER 31ST

Year	Amount	Year	Amount
	$ cts.		$ cts.
1909	1,350,881 42	1922	6,681,608 37
1910	2,399,138 09	1923	6,565,341 44
1911	3,439,577 42	1924	6,651,326 65
1912	3,880,152 33	1925	7,131,437 92
1913	3,652,941 19	1926	7,813,583 38
1914	2,780,746 84	1927	9,119,308 36
1915	2,196,144 45	1928	9,595,847 21
1916	2,339,017 96	1929	10,107,541 80
1917	2,801,302 67	1930	8,953,811 22
1918	3,561,414 13	1931	7,791,655 29
1919	4,575,339 70	1932	5,880,050 38
1920	5,682,104 43	1933	6,141,317 40
1921	6,898,545 38		
		Grand Total	137,990,135 43

These figures are Vancouver Stores only, excluding New Westminster and Fourth Avenue Stores.

DAVID SPENCER LIMITED

(Victoria Store)

STATEMENT OF TOTAL SALES

Year	Total	Year	Total
	$ cts.		$ cts.
1909 Year ending 31st December	833,664 00	1924 Year ending 31st January	2,488,764 05
1910 " "	893,011 00	1925 " "	2,705,310 38
1911 " "	994,398 00	1926 " "	2,933,866 26
1912 " "	1,389,554 00	1927 " "	3,145,531 10
1913 " "	1,414,342 00	1928 " "	3,286,711 58
1914 " "	1,034,980 00	1929 " "	3,655,881 53
1915 " "	756,442 00	1930 " "	3,556,344 14
1916 " "	856,214 00	1931 " "	3,197,953 57
1917 " "	1,022,083 00	1932 " "	2,838,257 05
1918 " "	1,217,082 00	1933 " "	2,399,294 58
1919 " "	1,668,158 00	1934 " "	2,410,240 60
1920 " "	2,073,085 00		
1921 " "	2,521,991 00	Grand Total	54,352,057 84
1922 " "	2,562,891 00		
1923 " "	2,496,008 00		

DAVID SPENCER LIMITED

(Victoria Branch)

STATEMENT OF NUMBER OF EMPFOYEES IN EACH OF THE SELLING DEPARTMENTS FOR THE YEAR 1933 WITH AVERAGE RATE OF PAY PER WEEK, EXCLUDING MANAGERS OR SPECIAL SALES DAY HELP-EXTRAS OR PART-TIME

Department No.	Department Name	Number of Employees	1933 High	1933 Low	1933 Average
			$ cts.	$ cts.	$ cts.
2	Men's Furnishings	7	22 00	10 00	16 80
3/83	Ladies' Hosiery, Children's Hose	6	12 75	12 75	12 75
4	Patterns	2	12 75	10 00	11 37
5/6	Dressgoods, Silks	5	22 50	12 75	16 80
7	Staples	8	22 00	7 00	15 28
8	Notions	6	12 75	7 50	11 41
9	Laces and Trimmings	1	12 75	12 75	12 75
10	Needlework	3	12 75	7 50	11 00
11	Bags	3	12 75	12 75	12 75
12	Handkerchiefs	....	....	....	....
13	Gloves	3	14 00	12 75	13 16
15	Books	2	12 75	9 00	10 87
70	Stationery	7	15 00	7 50	12 32
16	Drugs	7	15 00	12 75	13 18
17	Millinery	3	17 00	12 75	14 16
18	Whitewear	1	12 75	12 75	12 75
19	Corsets	1	12 75	12 75	12 75
20	Ladies' Underwear	3	12 75	12 75	12 75
22	Mantles	7	15 00	8 00	13 25
23/82	Carpets—Linoleum	5	28 60	18 00	23 40
24	Draperies	6	35 00	13 50	24 06
26/49	China—Silverware	3	15 00	8 00	11 91
126	Weiler China	6	22 50	5 00	12 96
27	Stoves	1	17 50	17 50	17 50
28	Hardware	9	17 00	7 00	11 64
29/81	Furniture, Beds and Mattresses	7	22 50	20 00	20 71
129/181	Weiler Furniture, Beds and Mattresses	1	7 00	7 00	7 00
32/132	Ladies' Shoes, B. H. Shoes	10	15 00	8 00	12 17
33	Men's Clothing	2	25 00	10 00	17 50
37D	Dining Room	5	12 00	12 00	12 00
37K	Kitchen	4	14 00	12 00	13 00
43/103	Delicatessen—Eggs	4	15 00	12 75	13 31
42/44	Butter—Bacon	9	22 00	12 75	14 44
45	Paints	2	12 75	8 00	10 38
50	Boys' Clothing	4	20 00	12 00	14 37
51/21	Sweaters—Blouses	2	12 75	12 75	12 75
53	Ribbons	1	12 75	12 75	12 75
57	Men's Hats	....	....	....	....
58	Bakery	4	14 00	12 75	13 06
59	Cheese	1	13 25	13 25	13 25
63	Groceteria	34	20 00	6 00	11 45
64	Fruit and Vegetables	6	20 00	7 00	12 58
67	Baby Wear	2	12 75	12 75	12 75
68	Children's Wear	2	12 75	12 75	12 75
69	Men's Shoes	2	25 00	18 00	21 50
72	Grocery Order	11	22 25	8 00	14 06
84	Studio	1	15 00	15 00	15 00
85	Meats	22	38 00	11 00	18 93
86	Boys' Shoes	2	15 00	12 00	13 50
99	Ladies' Bargain Highway	5	18 00	12 75	13 80
102	Men's Bargain Highway	1	8 00	8 00	8 00
109	Library	2	17 00	12 75	14 87
		251			

DAVID SPENCER LIMITED

(Vancouver Store)

STATEMENT SHOWING NUMBER OF EMPLOYEES IN EACH DEPARTMENT DURING YEAR ENDING 31ST DECEMBER, 1933 WITH AVERAGE WAGE PAID PER WEEK

Department Number	Department Name	Number of Employees	1933 High	1933 Low	1933 Average
	Selling Departments		$ cts.	$ cts.	$ cts.
A1	15c. Store	9	15 00	8 00	9 90
1	Umbrellas	1	15 00	15 00	15 00
2	Men's Furnishings	15	25 40	12 00	18 30
3	Ladies' Hosiery	11	12 60	10 10	11 90
4	Patterns (Butterick)	1	14 50	14 50	14 50
5	Woolen Dress Goods	2	20 00	20 00	20 00
6	Silk	6	21 10	10 50	16 40
7	Staples	7	29 40	16 30	22 50
8	Notions	6	12 50	12 15	12 42
9	Trimming	2	18 00	13 00	15 60
10	Fancy-work and wool	9	24 00	12 80	15 10
11	Purses	2	12 75	12 00	12 40
12	Handkerchief	1	13 00	13 00	13 00
13	Ladies' Gloves	3	13 20	9 00	11 35
14	Candy	9	14 30	9 10	12 26
15	Books	7	30 00	12 50	18 40
16	Drugs	15	27 90	8 60	15 95
17	Millinery	6	20 45	12 26	16 73
18	Thrift Shop	6	15 00	12 75	13 16
19	Corset	4	14 30	12 75	13 63
20	Ladies Underwear	8	13 95	12 75	13 05
21	Skirts	2	14 00	12 75	13 05
22	Ladies' Coats	8	40 00	14 00	18 70
23	Carpet	4	35 00	21 00	27 67
24	Drapery	12	30 00	10 00	19 40
25	Music	3	15 00	10 25	12 50
26	China	7	30 00	13 20	19 45
27	Stove	2	26 10	7 00	22 30
28	Kitchen Hardware	6	20 00	9 80	14 30
29	Furniture	7	30 40	15 50	19 75
30	Wallpaper	2	22 00	19 00	20 50
31	Toys	3	20 00	7 50	14 60
32	Ladies' Shoes	4	35 20	20 00	25 20
33	Men's Clothing	5	22 50	13 60	19 50
34	Sporting Goods	3	30 00	18 00	23 50
37	Dining Room	25	22 50	9 50	13 50
39	Peanut Butter	1	13 25	13 25	13 25
40	Creamery	5	16 00	6 00	12 50
41	Dairy Lunch	15	18 00	7 25	11 50
42	Greeting Cards	6	22 50	12 00	13 50
45	Paint	3	27 00	16 50	24 00
46	Seeds	3	20 00	12 75	17 50
47	Picture Framing	3	25 00	9 00	19 50
48	Builders' Hardware	5	25 00	17 00	19 50
49	Jewellery	4	14 00	12 75	13 00
50	Boys' Clothing	4	22 50	12 75	18 00
51	Ladies' Blouses	1	12 75	12 75	12 75
52	Neckwear	1	12 75	12 75	12 75
53	Ribbon	3	12 75	12 75	12 75
54	Scarves	1	14 00	14 00	14 00
55	Gramaphone	7	25 00	10 50	18 00
56	Trunks	1	20 00	20 00	20 00
57	Men's Hats	1	22 30	22 30	22 30
58	Cake	9	15 00	12 75	13 50
59	Cheese	1	13 00	13 00	13 00
60	Jewellery Repairs	1	15 00	15 00	15 00
62	Cutlery	5	25 00	15 00	26 00
63	Self Service Grocery	27	19 00	6 50	13 00
64	Fruit	12	27 00	12 00	13 00
65	Gift Shop	1	14 00	14 00	14 00
66	Kodak	2	15 00	12 75	13 50
67	Babywear	3	13 00	12 75	12 80
68	Girls' Wear	5	12 75	12 75	12 75
69	Men's Shoes	4	21 00	16 50	18 00
70	Stationery	17	30 00	9 00	14 00
73	Electrical Fixtures	2	14 00	9 00	11 50
74	Cut Flowers	9	27 00	13 00	19 75

DAVID SPENCER LIMITED

(Vancouver Store)

STATEMENT SHOWING NUMBER OF EMPLOYEES IN EACH DEPARTMENT DURING YEAR ENDING 31ST DECEMBER, 1933 WITH AVERAGE WAGE PAID PER WEEK

Department Number	Department Name	Number of Employees	1933 High	1933 Low	1933 Average
	Selling Departments		$ cts.	$ cts.	$ cts.
76	Burnt Leather	1	15 50	15 50	15 50
79	Youth's Clothing	2	18 00	17 00	17 50
81	Beds	4	18 00	15 00	16 00
82	Linoleum	4	30 00	21 00	24 00
84	Groceries	1	7 00	7 00	7 00
86	Soda Fountain	19	17 50	12 00	12 50
88	Boys' Furnishings	5	13 50	7 50	12 75
89	Window Shades	1	15 00	15 00	15 00
92	Patterns (Pictorial Review)	1	14 50	14 50	14 50
93	Children's Shoes	4	25 00	8 00	17 50
95	Flapper Shop	6	15 00	12 75	13 00
96	Interior Decorating	1	14 00	14 00	14 00
98	Tobacco	6	14 00	12 75	13 00
99	Downstair Store	33	25 00	11 00	16 50
100	Contract	1	18 00	18 00	18 00
101	Used Furniture	6	30 00	16 00	19 50
102	Magazines	1	12 75	12 75	12 75
104	Beauty Parlor	24	22 00	13 50	18 75
106	Ladies Dresses	4	20 00	12 75	14 50
107	Bedding	7	27 00	17 00	22 80
108	Wash Goods	5	14 00	12 75	13 00
109	Library	1	16 00	16 00	16 00
110	Coal	1	25 00	25 00	25 00
111	Wholesale Creamery	3	30 00	20 00	26 00
115	Optical	1	12 75	12 75	12 75
117	Downstair Shoes	6	20 00	12 75	18 00
119	Sewing Machine	1	20 00	20 00	20 00
121	Lamp Shades	2	21 00	12 75	16 50
125	Boys' Shoes	2	18 00	12 00	15 00
M44	Meats	26	30 00	12 75	20 05
P 44	Provisions	6	12 75	12 00	12 70
D44	Delicatessen	3	20 50	12 75	16 00
127	Greta Ann Candy	1	12 00	12 00	12 00
128	Photo Dem	3	15 00	12 00	13 00
130	Robson St. Greta Ann	2	12 75	12 75	12 75
	Pacific Food Dept	5	22 00	12 75	16 00
	Model Food Dept	15	22 00	10 00	15 50
	Auxiliary Staff	122	24 00	5 55	13 60
		721			

New Westminster Store

A	Provisions	3	12 75	11 00	12 15
B	Self Service Grocery	16	20 00	7 50	12 50
C	Lunch Counter	2	12 00	12 00	12 00
D	Candy and Cakers	2	13 00	12 75	12 87
E	Fruit and Vegetables	1	13 00	13 00	13 00
F	Office	7	20 00	12 50	17 50
H	Hardware	2	21 00	12 75	16 87
K	Kitchenware	3	20 00	12 75	16 58
L	Delicatessen	1	12 50	12 50	12 50
M	Meats	5	24 75	14 00	19 20
P	Paint	1	20 00	20 00	20 00
T	Tobacco	1	15 00	15 50	15 00
	Auxiliary, N. W	2	7 50	7 15	7 32
		46			

DAVID SPENCER LIMITED

(New Westminster Store)

STATEMENT SHOWING NUMBER OF EMPLOYEES IN EACH DEPARTMENT DURING YEAR ENDING 31ST DECEMBER, 1933, WITH AVERAGE WAGE PAID PER WEEK

Department Number	Department Name	Number of Employees	1933 High	1933 Low	1933 Average
	Service Department		$ cts.	$ cts.	$ cts.
	Personal Shopping	3	15 00	12 75	13 90
	Publicity	5	16 50	12 75	14 20
	Wellfare	1	22 50	22 50	22 50
	Mail Order	39	24 00	12 50	13 60
	Millinery Workroom	2	18 00	15 30	16 20
	Thrift Shop Workroom	2	18 50	15 00	16 75
	Ladies' Dresses Workroom	12	30 00	15 00	17 15
	Fur Workroom	5	25 00	9 10	15 00
	Drapery Workroom	13	35 00	9 00	20 60
	Cash Office	43	16 00	12 75	13 90
	Audit Office	16	16 00	12 75	13 60
	Post Office	1	13 50	13 50	13 50
	Telephone Exchange	4	20 00	13 00	17 80
	Floor Walkers	3	26 00	18 00	21 60
	Employment Office	1	18 00	18 00	18 00
	Time Office	3	20 00	12 75	16 30
	Advertising	6	18 00	13 50	15 30
	Window Trimmers	7	22 50	5 00	15 00
	Parcellers	30	12 75	7 50	8 50
	Collectors	3	7 50	6 00	6 50
	Delivery Room	5	24 50	11 50	19 40
	Transfer Room	3	20 00	10 00	14 25
	M.O. Grocery Packers	8	20 00	10 00	17 00
	M.O. Shipping	14	23 50	8 75	15 10
	City Delivery Drivers	28	25 00	14 00	21 80
	Crockery Packers	2	20 00	20 00	20 00
	Furniture Packers	5	27 50	16 50	22 00
	Adjustment Bureau	1	15 00	15 00	15 00
	Telephone Orders	5	20 00	8 90	12 80
	C.O.D. Office	1	29 00	29 00	29 00
	Paper Stockroom	2	8 00	8 00	8 00
	Garage Mechanics	4	35 00	26 00	28 00
	Carpenters	5	35 00	31 50	33 90
	Painters	3	27 00	14 00	21 00
	Porters	16	27 50	14 00	16 00
	Elevator Operators	22	24 00	7 50	14 30
	Engineers	4	31 00	23 00	26 80
	Receivers	5	30 00	15 00	23 20
	Watchmen	2	21 00	21 00	21 00
	Electricians	5	37 50	26 00	28 90
	Tinsmith	1	26 00	26 00	26 00
	Suburban Drivers	4	25 00	17 00	23 00
	Credit Collectors	4	43 00	18 00	31 00
	General Office	60	33 50	12 00	18 00
	Meat Wrappers	12	12 75	7 50	11 50
		420			

The WITNESS: The first statement I have given you is the consolidated balance sheet of the David Spencer Company for ten years. Perhaps I should tell you at the outset that this is also a private company, a company that has been in existence in Vancouver a great number of years. It has its main store in Vancouver, a substantial store in Victoria, a store in Nanaimo, and a store in Westminster. The shares of this company are owned entirely by the widow of the founder—Mr. David Spencer—and her son.

As in the case of Woodward's, this company was reorganized; its capital was reorganized in 1931.

By Mr. Sommerville:

Q. That is so as to take advantage of Section 19 of the Dominion Income War tax?—A. Yes.

Q. And its surplus was then capitalized?—A. Its surplus was then turned into capital.

Q. And the capital distributed to the same shareholders?—A. To the same shareholders as they had before, and at the same time the assets were appraised and the appraisal value was put upon the books,—exactly the same transaction, except as to amount, as the Woodward Company.

By Mr. Kennedy (Winnipeg):

Q. That distribution was provided under the law without payment of income tax?—A. Without payment of income tax, yes.

Q. That was the occasion for this reorganization at that time?—A. Yes.

By Mr. Sommerville:

Q. That was the case where parliament decided that surplus profits that were being kept in company accounts ought to be distributed and without being used, and that permitted the distribution of surplus profits without the payment of income tax.—A. The Income War Tax was amended to permit of that.

To follow the same procedure as this morning, you will note that at January 31, 1924, the total assets of David Spencer, Limited, were $5,826,000, and at January 31, 1934, were $13,707,000.

Q. They had grown from $5,800,000 to $13,700,000?—A. Yes.

Q. Perhaps you can identify just what happened at the reorganization?—A. At the end of 1931, the company had $200,000 of capital and $5,600,000 which had been built up, as you see, for many years prior to even 1924.

Q. In 1924 the surplus had amounted to $4,100,000?—A. Yes.

Q. And by the end of 1931 it had risen to $5,600,000?—A. That is right.

Q. It had increased by $1,500,000 in the meantime?—A. That is right.

Q. That is the only capital that was outstanding up to 1931, $200,000?—A. $200,000. And so the $5,600,000 was turned into capital, shares issued for it, and at the same time the land and buildings account of the company was written up some $3,250,000.

Q. Those two amounts, the surplus of $5,600,000, plus the capital already outstanding of $200,000?—A. And something over $3,000,000.

Q. And upwards of $3,000,000 of increased appraised value?—A. $4,000,000, over $4,000,000.

Q. Over $4,000,000 of appraised value, increased appraised value on the premises of David Spencer Limited, were added together and a new charter issued and new capital authorized or issued, amounting to what?—A. $11,000,005.

Q. The $200,000 of capital stock then became $11,000,000 of capital stock, including the surplus?—A. Right.

Mr. Heaps: Was that on the basis of the new appraisal?

Mr. Sommerville: That was on the basis of the new appraisal.

Mr. Heaps: Have we got that definite?

Mr. Sommerville: Oh, yes.

Mr. Heaps: Have we got anything to show that the appraisal was $11,000,000?

Mr. Sommerville: No.

The Witness: The appraisal was not $11,000,000.

The Chairman: Including surplus.

Mr. Sommerville: The actual surplus on hand at that time was $5,600,000. In addition to that there was $200,000 of capital stock. Those two amounts made $5,800,000. To bring it up to $11,000,000 required an additional amount. That additional amount was supplied by the increased value put upon the premises of David Spencer, Limited, of $4,000,000 odd.

The WITNESS: Yes.

Mr. HEAPS: Was there anything to show what the increased value was?

Mr. SOMMERVILLE: The actual premises.

The WITNESS: The appraisal.

By Mr. Heaps:

Q. Had it increased at all to that extent?—A. Well, of course we can't tell you that. The appraisal company says so.

Q. We had an appraisal yesterday?—A. Yes, I have seen that.

The CHAIRMAN: Pretty fishy.

Mr. SOMMERVILLE: Of course, this is a private company, Mr. Heaps.

Mr. HEAPS: Yes, but still paying profits, I presume, on the whole of the capitalization.

Mr. SOMMERVILLE: The dividends will be declared on the whole capitalization, that is true.

By Mr. Heaps:

Q. I was just wondering if there was anything to show for the new valuation that was put on the premises?—A. There was a report by the appraisal company.

Q. You have not got the report?—A. No, I have not got the report with me, but my agents in Vancouver have seen the report. The amount, Mr. Heaps, does not surprise me particularly, the fact that it was written up $4,000,000; the land and buildings account was appraised at some $8,600,000.

Q. Prior to the appraisal, what were the lands and buildings carried at in the books of the company?—A. $4,700,000.

The CHAIRMAN: No. $5,300,000.

Mr. SOMMERVILLE: Yes, $5,300,000.

The CHAIRMAN: Oh, yes, less reserves, $4,700,000.

The WITNESS: $4,700,000.

The CHAIRMAN: There is a reserve of $674,000 which they presumably carried into this new capital.

The WITNESS: Yes, exactly.

Mr. SOMMERVILLE: In 1934 land and buildings had a valuation of $2,800,000?

The WITNESS: Mr. Chairman, if you or the members of the committee will look at the plant and equipment account, the first item is furniture and fixtures which was carried at $659,000. There was a reserve against that at that time of $460,000. That would mean that the net value of the furniture and fixtures, according to the company, was $200,000. The appraisal company says, "That is not worth $200,000, it is worth $660,000," as you will see on the column on the right.

By Mr. Sommerville:

Q. Where is that?—A. Subheading "Plant and Equipment." If you follow down here to January 31, 1931, you will see that the book value is $659,000, less reserve of $460,000. The heavy black are the reserve items. The appraisal company comes along and says that is worth $664,000 and it is put upon the books the next year at that figure. The plant and machinery which is followed by the book value of $1,022,000, with a reserve of $554,000 against it, would make something like $470,000 net. The appraisal company says it is worth $1,023,000; and the same with the automobiles and trucks.

Q. Automobiles and trucks have a value of $222,000 with $200,000 of reserve against that?—A. Yes.

By the Chairman:

Q. They included those three reserves?—A. And the reserve below the land and buildings is $674,000. All of these reserves were written out when the appraisal was made, and the assets were taken on the books at the appraisal figure, at the new appraisal figure, without those reserves.

By Mr. Sommerville:

Q. Land and buildings were increased from $5,376,000, against which there was a reserve of $674,000?—A. Yes.

Q. To $8,607,000?—A. Right.

By Mr. Heaps:

Q. There was an increase of approximately $4,000,000?—A. Approximately $4,000,000, yes.

By Mr. Senn:

Q. Was there any enlargement or building going on in that time?—A. Not in that time, no.

Mr. HEAPS: Buildings had come down in value, instead of going up, between 1931.

The WITNESS: This is in 1931.

Mr. SOMMERVILLE: Yes.

By Mr. Senn:

Q. Was there any installation of new machinery or new fixtures?—A. No. I am speaking in substantial amounts now.

By Mr. Sommerville:

Q. This apparently was a reorganization taking advantage of the situation as it existed at the time, and adding to it the new appraisal?—A. Yes.

Q. And as it was a private enterprise, they considered, I presume, that it didn't make any difference what value was put on the buildings?—A. It is a private company.

By Mr. Young:

Q. The valuations put on in 1924 were those prevailing at that time; when were they put on?—A. In 1924.

Q. Those might have been greater values in 1928?—A. Might possibly have been.

The CHAIRMAN: There were large increases in the plant since then, in the years immediately following that.

By the Chairman:

Q. Is that all on that page?—A. The other item I want to call attention to is the surplus which ten years ago was $4,000,000 odd, and then amounted to $5,600,000 and was taken into the capital. In 1931—January 31, 1932—there was a small profit of $103,000, a substantial loss in 1932, and in 1933. In explaining that loss, I might say that company had been for some years very heavily indebted to its bankers, and it was considered advisable to have some new control which was supplied. The new manager or controller set about cleaning house, and that is largely responsible for the losses in the last two years.

Q. That would be on inventory, I suppose?—A. Yes; a regular house-cleaning.

By Mr. Kennedy (Winnipeg):

Q. In what year was that amendment to the Income War Tax Act which permitted that distribution of surplus capital?—A. 1929, I think.

Mr. SOMMERVILLE: Yes, I think it was 1929.

The CHAIRMAN: I thought it was 1930.

Mr. SOMMERVILLE: Hon. Mr. Robb was Minister of Finance, if I remember correctly.

The WITNESS: 1929.

Mr. KENNEDY: It is under that provision that Mr. Stewart of Macdonald's gave evidence of drawing $5,000 a week without payment of the tax?

Mr. SOMMERVILLE: It was under that same provision. In other words, he drew out his capital, loaned it back to the company and the company pays it back to him at the rate of $5,000 a week.

Mr. EDWARDS: That was in the Dunning budget of 1929.

By Mr. Heaps:

Q. Was it not being done by the other people?—A. No, it was not.

By Mr. Sommerville:

Q. With reference to the question of the reduction, I observe that the bank loan was reduced from $2,000,000 in 1931 to $1,800,000 in 1932, to $1,100,000 in 1933 and down to $443,000 in 1934?—A. That is right.

Q. It is only about 25 per cent of what it was two years ago?—A. Yes.

By Mr. Kennedy (Peace River):

Q. Had that something to do with the loans?—A. Yes, it had.

Q. There is an interesting story about that?—A. It has something to do with it, and that is why I explained it, because you cannot take the loans in the last two years as being truly indicative of the operating condition of the company. When you have a cleaning of house and trying to bring inventory down, you are bound to take certain losses.

By Mr. Heaps:

Q. Did this bank loan compel the company to liquidate its stock?—A. I believe that is not the case. I think the bank was concerned with the fact that the loan had been running so high for so many years, but my information is that it was not compelled by the bank. The Spencer family themselves desired to get their debts paid, and wanted to get this company on a clean basis.

Q. The reason I say that is that if you look at the inventories on that same page, from 1931 to 1934, it shows a great diminution, does it not?—A. Yes, it does.

By Mr. Sommerville:

Q. Before you leave that consolidated balance sheet, is there any significance attached to the very large increase in the bank loans from 1926 to 1927?—A. No, there is not.

Q. That may have been at the time when they were— —A. You will notice that the company's assets at the same time went up nearly $6,500,000. That is at the time that they have added very largely to the size of their store.

Q. I observe also in the next year the mortgage was increased?—A. Yes.

Q. And the bank loan was proportionately decreased?—A. The bank loan decreased. They borrowed money from another source.

Q. All right. Will you continue?—A. The next statement is the consolidated trading accounts for ten years, and it shows the sales figure about half way down in the first group, Mr. Sommerville.

Q. Yes, the sales were what?—A. They went from $10,400,000 in 1925 up to a peak of $16,400,000 in 1929, and down to the low of $9,500,000 in 1933, at January 31, 1934.

Q. Their year ends the same as Woodward's?—A. Yes, the same as Woodward's, January 31.

Q. The total sales during that ten-year period amounted to what?—A. $128,000,000.

Q. $128,875,000?—A. Yes.

Q. The gross profit in that period went from $2,823,000 in 1925 to a peak of $4,750,000 in 1930?—A. Yes.

Q. And down to $2,639,000 at the end of January 31, 1934?—A. Yes.

Q. The total gross profit was $35,347,983.82?—A. Yes.

Q. With total sales of $128,875,000?—A. That is right. Then as shown below, there are two groups. First of all there are departmental expense, and secondly administration expense. You will notice that in this case the advertising, which we were interested in in connection with Woodwards this morning, which ran to $100,000, is very much larger in this company.

Q. In this company the advertising is very much more?—A. A peak of well over $300,000.

Q. It runs from $215,799 on January 31, 1925, to a peak of $389.000 on January 31, 1931, to some $244,000 at January 31, 1934?—A. Yes.

Q. The total there for the period is what?—A. $3,000,000.

Q. $3,070,810.68?—A. Yes.

Q. With regard to this salary item in the departmental expense, what salaries are covered by that item?—A. Everything is covered by that.

Q. That is wages?—A. Yes, everything.

Q. Wages?—A. They call it all salaries.

By Mr. Heaps:

Q. How do they compare with other firms?—A. I will be filing those in a minute or two.

The CHAIRMAN: You get that in the last sheet.

By Mr. Sommerville:

Q. Was there anything further on that?—A. No, I think that is all. Then you come to administration.

Q. Yes, you have administration, directors' salaries at January 31, 1925. were $94,000, which reached a peak of $145,000, and then are down to $30.000 this last year?—A. Yes.

By Mr. Kennedy (Peace River):

Q. How many directors are there?—A. That covers a group of seven.

By Mr. Kennedy (Winnipeg):

Q. Without mentioning either the amount or the names, how do the executives' salaries of David Spencer, Limited, compare with the one we had this morning, Woodwards?—A. They are higher, generally.

Q. Are they still moderate?—A. Yes, they are still moderate. There is a group of seven in this.

By Mr. Heaps:

Q. These were extremely low?—A. These were extremely low. One thing I wanted to say this morning was that the Woodward Company is very

economically run from an expense standpoint. That is one of the reasons for the profits.

Q. From the overhead standpoint?—A. Yes.

By Mr. Kennedy (Winnipeg):

Q. Where it is what you call a closed group, whether they get it in salaries or dividends is immaterial?—A. Quite so. You have got to take into consideration the dividends paid. You find when they give dividends in cash they are lower than the dividends in Woodwards, whereas the salaries are higher.

By Mr. Kennedy (Peace River):

Q. While you are dealing with the directors, might I ask if most of the directors are in the family?—A. They are all in the family.

Q. So that the returns to the groups are salaries and dividends?—A. Yes.

By Mr. Heaps:

Q. You have an item for bad debts on the same sheet. What about that? —A. I was just going to comment on that. I wanted to draw attention to the fact that in the Spencer Company there are, running over a period of ten years, bad debts amounting to $666,000. This company has given considerably more credit than the Woodward company. You will notice in the balance sheet, the first page we referred to, on January 31, 1934, there were $979,000 outstanding accounts as against $102,000 outstanding accounts in Woodwards. While the turnover is larger, it is not a like proportion.

By Mr. Kennedy (Winnipeg):

Q. Before we leave the matter of dividends, can you tell us in round figures, what the actual average dividend of Woodwards Limited was, and also Spencers Limited, in percentage?—A. Percentage on the capital?

Mr. SOMMERVILLE: On the new capital of $5,000,000.

Mr. KENNEDY (*Winnipeg*): Well, the percentage return on the invested capital.

Mr. SOMMERVILLE: Was it not six per cent?

The WITNESS: In Woodwards?

Mr. SOMMERVILLE: Yes, in Woodwards.

The WITNESS: The dividends paid in Spencer's are extremely small; no dividend at all paid in 1933; there was a loss in that year, $16,000 was paid in 1932; $31,000 in 1931.

By Mr. Sommerville:

Q. Can you give us them in percentages?—A. On $11,000,000 capital, $30,000 would be a little over one quarter of one per cent.

The CHAIRMAN: ·03?

The WITNESS: Yes.

By Mr. Kennedy (Winnipeg):

Q. You say Spencer's has been run on a percentage basis?—A. Yes.

Q. What about their earnings that were carried into surplus? Have their earnings been low on invested capital?—A. No; we can give you that too. There would be no earnings, of course, the last two years, owing to losses. In the year 1931 the earnings on invested capital were 10 per cent—nearer 9 per cent, and they paid one-third of one per cent in dividends. In the year 1930 there was a small loss.

Q. The earnings on capital of these companies are particularly large?—A. The two companies are very very different. The Woodward has maintained a substantial profit throughout ten or eleven years; the Spencer company in the last five years, its profit has been very low, and in some cases actually losses, so its dividends have been small. On the other hand, its salaries have been somewhat higher.

By Mr. Sommerville:

Q. Now, dealing with your consolidated trading account, we will finish the first page?—A. May I just amplify my statement as to Woodward's? Woodsward's earned during the last four years, 10 per cent and paid 4 per cent in dividends.

Mr. KENNEDY (*Winnipeg*): In dividends?

The WITNESS: On its invested capital, and paid 4 per cent dividends.

By Mr. Sommerville:

Q. When you are considering invested capital, you are considering $5,000,-000?—A. Yes.

Q. Ten per cent on the $5,000,000 would be.— —A. $500,000.

Q. And then you say the $5,000,000 is largely written by— —A. Quite so.

Q.—by the new appreciation?—A. I should not use the word "investment"; I should say capital.

By Mr. Kennedy (Winnipeg):

Q. A portion of the capital on which you reckon a return of 10 per cent is written up 50 per cent?—A. In the Woodward company, possibly so—

Q. That would mean really 20 per cent on invested capital?—A. Yes, if you eliminated the appraisal.

Q. Eliminated what is written up?—A. Yes.

Q. No, it is not quite that.

By Mr. Sommerville:

Q. In the case of Woodwards, there was written up something like $1,000,-000?—A. Yes.

Q. It would be 25 per cent write-up.—A. I should correct that. The capital would be about $4,000,000, and the profit would be $500,000 on $4,000,000.

By Mr. Kennedy (Winnipeg):

Q. Let us get that correct.—A. Yes, I would like to correct that.

Q. The return in percentage on invested capital— —A. Would be about 13 per cent in the last four years, and they paid 4 per cent.

By Mr. Sommerville:

Q. For each of the last four years?—A. Average of the four years.

Q. Now then, dealing with the second page of your consolidated profit and loss account, was there something you desired to bring to the attention of the committee there?—A. I do not think there is anything there that is not self-explanatory. We point out there the capital from the date of the organization and show the losses for the recent years.

Q. The store operations show a profit in itself?—A. Yes.

Q. The operation of the store itself shows a profit of $280,000?—A. In the last year, yes.

Q. There are losses in respect of sundry rents due to them but not received, $21,000?—A. Certain sundry recoveries, interest from investments—they have

a substantial investment portfolio, and rents from the Victoria building and the Times building against each territory; municipal taxes ran to $109,000 in the last year; interest on mortgages which they borrowed on their buildings, $126,-000, charge for life insurance on certain of the lives of the directors, $21,000, fire insurance and depreciation—

Q. Depreciation amount written off was $86,000?—A. Yes, there was no increase in the depreciation charge as the result of writing up the assets.

Q. They continued to add the same amount?—A. Yes.

Q. Annually for depreciation?—A. Yes, approximately so.

Q. But a large portion of the big loss is represented by the $86,000 of depreciation and $21,000 life insurance premiums?—A. Yes.

Q. That was charged against the operations, and as a result the statement shows a net loss of $39,000 in the operations.—A. $35,000.

Q. $35,916?—A. Yes.

Q. Which would be more than wiped out by the depreciation?—A. Oh, yes.

Q. Now, what were the total net figures in the ten year period in the operations, net profit and loss?—A. You are not speaking of the profit from the store operations?

Q. I am talking of the whole company.—A. $692,000 of profit in the 10 years.

Q. On what page is that?—A. The same page, the next block up, Mr. Sommerville, on the right hand side, the next block up, $692,000, the net column.

The CHAIRMAN: Balance to surplus?

By Mr. Sommerville:

Q. $692,020 for the ten year period after taking into consideration losses sustained through its sale of inventory?—A. Yes, then on the next sheet we show the departmental operating statements, the results of which we have referred to. You have noticed there are a great many more departments here than there were in the Woodward store, and we show the sales on the left hand column and the mark-up percentage on the third column from the right.

Q. Now in this Vancouver store, I observe Spencer's conduct also a five, ten, and twenty-five cent store?—A. Yes, a section of the store is five, ten, and twenty-five cents.

Q. In that particular store they have a mark-up of— —A. 45·7 per cent.

Q. In umbrellas the mark-up is 49·5 per cent?—A. Yes.

Q. Linens, 47·9 per cent?—A. Yes.

Q. Notions, 53 per cent?—A. Yes.

Q. Millinery, 69 per cent?—A. Yes.

Q. Drugs. What is your mark-up in drugs, 41 per cent?—A. 41 per cent is right.

Q. Corsets, 65 per cent.

Mr. HEAPS: Thrift Shop, 44 per cent.

By Mr. Sommerville:

Q. Thrift shop 44 per cent mark-up?—A. Yes.

Q. Carpets, 42 per cent?—A. Yes.

Q. Draperies, 48 per cent; China, 63 per cent; Wallpaper, 70 per cent; greeting cards, 62 per cent; pictures, 98 per cent?—A. That is seeds.

Q. Seeds, 98 per cent; pictures, 60 per cent?—A. Right.

Q. Builders' hardware, 47 per cent; boys' clothing, 47 per cent; neckware, 58 per cent; ribbons, 90 per cent?—A. Right.

Q. Watch repairing, 74 per cent; cutlery, 49 per cent; curios, 58 per cent.

The CHAIRMAN: There is a flapper shop.

Mr. YOUNG: They did all right on their flappers.

Mr. SOMMERVILLE: 49 per cent on the flapper shop.

The CHAIRMAN: Downstairs store; is that the groceries?

The WITNESS: That is a downstairs store, something like Eaton's basement, only not developed to that extent.

By Mr. Sommerville:

Q. Bargain department; youths' clothing, 42 per cent?—A. Yes.

Q. Not-Nu furniture; that is the trade-in furniture?—A. Yes, traded in.

Q. 64 per cent? Cosmetics, 62 per cent, optical 133 per cent, sewing machines, 76 per cent?—A. Yes.

Q. Lamps, 52 per cent; boys' shoes 39 per cent; Robson street store?—A. That is a small fancy store.

Q. A special store, 58 per cent. Candies, 49 per cent, stationery, down to 14 per cent?—A. It does very little of that.

Mr. KENNEDY (*Winnipeg*): The bakery here shows a profit, Mr. Sommerville.

Mr. HEAPS: Tobacco, 32·3 per cent.

Mr. SOMMERVILLE: Tobacco 32·3.

Mr. HEAPS: On the other page you have also a tobacco item, item No. 98.

Mr. SOMMERVILLE: A small one.

Mr. HEAPS: 23·6.

Mr. SOMMERVILLE: This is a small item.

The WITNESS: I think they had one little one; it is just an extra counter for convenience, perhaps, in the store; it would be separate.

By Mr. Sommerville:

Q. Then you have a candy factory, 98 per cent, spice factory, 51 per cent, tea and coffee, 18 per cent, bakery 45·6 per cent?—A. That is the same as we have in the Woodward store. That is the profit before the whole department expenses are applied to it.

Q. What did you find in this store with respect to the question of bread?—A. They are also selling bread for two for seven cents following,—I don't say following, but they are doing the same—

The CHAIRMAN: Doing the same as Woodward's.

The WITNESS: Doing the same as Woodward's. Selling the bread continuously below cost.

By Mr. Kennedy (Winnipeg):

Q. And butter?—A. I did not find the same thing in butter in this store, no.

Q. Did you find it in any other commodity besides bread?—A. We found examples of loss leaders, but in no steady department, or in no one commodity through the year.

Q. Bread was the only commodity consistently sold below cost?—A. Bread was the only commodity consistently sold below cost.

By Mr. Sommerville:

Q. The average mark-up was 40·4?—A. That is including the last two groups of foodstuffs and eliminating this, the mark-up was 43·1 per cent.

Q. Eliminating foodstuffs, the average mark-up was 43·1 per cent?

Mr. HEAPS: When were these mark-ups taken?

The WITNESS: When? They were taken right from the company's record for last year.

Mr. SOMMERVILLE: The whole of last year?

The WITNESS: The whole of last year.

By Mr. Heaps:

Q. Have you the average mark-up for the year?—A. Yes, this is the average mark-up. That is the only way we could get the maintained mark-up. We might have some samples later. We tried to get the maintained mark-up on one particular purchase, say coats, but you cannot find it; you cannot find the last one, two or three coats in the purchase.

Q. I have in mind a specific seasonal commodity. At the end of the season they will probably clear it out at a fairly low rate?—A. Yes.

Q. It is pretty common in all department stores?—A. Yes, quite common.

Mr. SOMMERVILLE: This is reflected in the maintained mark-up.

Mr. HEAPS: In those averages we have here?

Mr. SOMMERVILLE: Yes.

Mr. YOUNG: They lost money on about half of their departments?

The WITNESS: They did last year.

Mr. SOMMERVILLE: The losses are shown in the heavy black type.

By Mr. Young:

Q. Yes. Can you give any rule; was there any rule followed there in taking those losses? Why did they take a loss on the five, ten and twenty-five cent store and make money on the umbrellas and men's furnishings?—A. I do not think I could apply any rule to that. As I say, this company was going through a period of reconstruction and reorganization. They were cleaning their stock, and trying to put the company on its feet again at the time. I think they had undoubtedly an inventory loss. This would be reflected in those figures.

By Mr. Sommerville:

Q. That process would also reflect itself in the maintained market?—A. Right, yes.

Q. In the mark-ups that were received?

Mr. YOUNG: They made very heavy losses in the furniture, heavy losses in the china and drapery groups.

The WITNESS: You will remember furniture was not a good department in the Woodward store either. The furniture business in Vancouver in the department stores is not good.

Mr. YOUNG: What I want to get at is, whether these losses are due to the fact that they had big stocks of those commodities on hand when prices went down.

The WITNESS: That would be part of it, yes.

Mr. YOUNG: No other reason you can think of?

The WITNESS: No.

By Mr. Sommerville:

Q. That would mean that they would keep that in stock for years; but that is hardly the policy in departmental stores, is it?—A. I think if you will turn over—

Q. To page 5?—A. I thought perhaps that might be useful.

Q. Page 5 shows the mark-ups?—A. We show the mark-up on three dates; we really wanted to show whether there is any very serious fluctuation between the summer of 1933 and the winter of 1933, because when we struck that particular company, they were bringing about the change internally, and we wanted to find out whether our figures were indicative, so we gave the mark-up both in June and December.

Q. Yes. Now then— —A. The next statement which is also not printed, is a statement of certain departments for ten years showing the fluctuations of the mark-up during that period.

Q. Yes. I observe that this company has had an average mark-up?—A. Has a general increase in the last two years.

Q. In the last two years the mark-up has increased?—A. In fruits from 27 per cent to 30 per cent; vegetables 29·5 to 33·6; groceries from 8·81 to 14·9.

Q. That is almost a 70 per cent increase in that mark-up?—A. Ladies' underwear 44·76 to 55·5; boys' clothing from 39·67 to 47·5; furniture from 34·31 to 37·1; mantles are down.

Q. Men's clothing 29·66 in 1933 to 36 in 1934?—A. Mine is not printed, on this copy—what is yours?

Q. 29·66 in 1933 to 36 in 1934; mantles from 34 in 1933 to 38 in 1934?—A. Men's shoes went up in two years from 41·6 to 46·8; ladies' shoes from 31·22 to 40; drugs from 44·8 to 41·8—they went down.

Q. Generally speaking this indicates a rise in the spread in these items from the price at which they were purchased to the price at which they were sold; and there has been an increase in the last two years?—A. Yes.

Q. Then the next statement is for the purpose of showing the spread of the expenses, it is for filing?—A. The balance of these statements are examples of price spreads, the same as I gave in the case of Woodwards this morning.

Q. Now, let us take some of these; let us take for instance drugs?—A. The maintained mark-up of the drug department was 41·8 per cent in 1933; the spreads from initial mark-ups were from 113 per cent high to 12 per cent low.

Q. 113 per cent is high—vacuum bottles I see cost 23 cents and sold at 49 cents; a mark-up of 113 per cent. Facial oil cost 25 cents, marked up to 50 cents; 100 per cent. Absorbent cotton purchased at 21 cents and sold at 39 cents, a mark-up of 85 per cent?—A. Yes.

Q. Hospital absorbent cotton—what is that?—A. The same thing. It costs 21 cents, marked up to 39 cents, a spread of 85 per cent.

Q. Blue blades, apparently razor blades; what is that?—A. They cost 6.40, marked up to 10; a mark-up of 56 per cent.

Q. And here you have Epsoms Salts—you were interested in that Mr. Heaps?

Mr. Heaps: No, I was interested in Enos.

The Witness: Cost 4.5, marked up to 9, a mark-up of 50 per cent.

The Chairman: Can't you find some Enos?

Mr. Sommerville: We had so much of it yesterday it should not be hard to find.

The Chairman: I mean, give him the details.

By Mr. Sommerville:

Q. Toilet paper?—A. Cost 10, marked up to 15.

Q. Palm olive?—A. Cost 6 cents, marked up to 8 cents, a mark-up of 33 per cent.

Q. Kruschen salts?—A. Cost 48 cents, marked up to 63 cents, a mark-up of 30 per cent.

Q. Listerine?—A. Cost 79 cents, marked up to 98 cents, a mark-up of 24 per cent.

Q. Listerine is one of those standard brands. And the maintained mark-up of this department you say was 41·8. Now, in ladies underwear?—A. A maintained mark-up in 1933 of 55·5 per cent, with the mark-up varying from 122 per cent to 6 per cent.

Q. Now, can you give us some example of these; most of these are manufactured in Montreal?—A. Slips purchase cost 40 cents laid down, marked up to 89 cents; a mark-up of 122½ per cent. Vests purchased in Galt, cost laid down $1.40, marked up to $2.95; a mark-up of 110 per cent.

Mr. Kennedy (*Winnipeg*): How much did you say the mark-up was?

Mr. Sommerville: 110 per cent—that is pretty fair for Galt.

The Witness: 300 sets of pajamas purchased for $1.01, marked up to $1.75; a mark-up of 75 per cent. 300 gowns purchased in Montreal, 42 laid down, marked up to 69, a mark-up of 64 per cent. 120 knitted garments of some kind purchased at 66 laid down, marked up to a dollar; a mark-up of 51 per cent; 120 other slips cost $1.70 laid down, marked up to $1.98; a mark-up of 16 per cent.

Q. The next covers?—A. The mantle department, 38.3 per cent maintained mark-up, the individual mark-up being from 121 per cent to 3 per cent.

Q. Now, in the case of coats?—A. Purchased in Vancouver, made in Vancouver, coats bought for $8.80 marked up to $19.50, a mark-up of 121·57 per cent. 100 coats purchased in Montreal at $22.05 laid down sold for $29; some at $39.10—a mark-up from 31 per cent to 79 per cent.

Q. Coats and suits bought in Winnipeg?—A. Cost $25.85 laid down, sold at $45, a mark-up of 74 per cent.

By Mr. Young:

Q. Do the items shown on this sheet indicate whether there is a net profit or loss on each?—A. No, but they are being filed.

The Chairman: They are being filed as exhibits.

The Witness: We could not get them all printed in time.

By Mr. Sommerville:

Q. Give us some more of these; here are some squirrel coats from Montreal? —A. The cost laid down was $42.12, they were marked up to $69.50; a mark-up of 65 per cent.

Q. Suede coats?—A. They were purchased for 48.05, they sold for 79, a mark-up of 64 per cent.

Q. How about that item of wolf-trimmed coats?—A. Those were purchased for $20.93 laid down. They sold for $35; a mark-up of 67 per cent.

Q. Perhaps it would be better to refer to the one previous to that; somebody asked if the more expensive suits had a larger mark-up; just above is that item "suit-wolf"?—A. That was a special suit purchased for $17.07 and marked up to $29.50, a mark-up of 72 per cent.

Q. Would you refer to the one here which cost $59.50— —A. Oh, yes, that is called the wolf suit.

Q. The wolf suit?—A. That was purchased for $35.15 laid down, it sold for $59.50, a mark-up of 69 per cent.

Q. Which is practically the same carrying charge as on any of the larger suits. Here is one, shadow-fox?—A. That cost $101.47 laid down, it was marked up to $159.50; a mark-up of 57 per cent.

Q. Swagger suits?—A. Purchased at a cost of $15.78 laid down, sold all the way from $13.95 to $21, a mark-up of as high as 52 per cent.

By Mr. Kennedy (Peace River):

Q. Were some sold at a loss?—A. Not sold at a loss, but some were sold at a very small profit; none at a loss.

Q. Furniture?—A. A maintained mark-up of 37·1 per cent; and there are instances of that mark-up varying strongly—some furniture was actually sold at a loss.

Q. Were the chesterfields sold at a loss?—A. 18 were sold at a loss.

Q. I see that, I mean taking it all into consideration you have had a maintained mark-up of 37 per cent?—A. Yes.

The CHAIRMAN: 31·7 per cent.

The WITNESS: 37·1 per cent.

The CHAIRMAN: I beg your pardon.

By Mr. Sommerville:

Q. For instance, here you have desks?—A. Desks purchased at Elora at a cost of $5.45, sold at $10; a mark-up of 87 per cent. Tea wagons cost $21.90 laid down, sold at $39.50; a mark-up of 80 per cent. Chesterfield sets cost $198.75, sold at $335; a profit of $136 or 68 per cent. Bedroom sets, purchased at $94.50 laid down—a Stratford purchase—sold at $159; or a mark-up of 68 per cent.

The CHAIRMAN: Stratford—that is the place where we had all the trouble, wasn't it? What is that again?

The WITNESS: They were purchased from the factory at a cost of $76, they cost $18.50 for sales tax and freight, a combined total of $94.50; they sold for $159; a mark-up of 68·25 per cent.

By Mr. Heaps:

Q. Mr. Nash, are not a good deal of these goods about which you are speaking sold on a term basis?—A. You mean by Spencers?

Q. On the instalment plan?—A. Not all on credit.

Q. They carry on a large cash business though?—A. Spencers carry on a large cash business, they also have a substantial credit business.

By Mr. Sommerville:

Q. What Heaps is referring to is, he wants to know whether these mark-ups are on the cash business or the credit business?—A. I do not think it makes any difference.

Q. There is a regular provision for that, 6 per cent interest additional, or something of the kind.

Mr. HEAPS: The reason I draw attention to this is because of the large amount that was put down to bad debts.

Mr. SOMMERVILLE: I appreciate that.

The WITNESS: This, Mr. Heaps, was the cash selling price. These are the prices at which the goods are marked in the store. As soon as the goods are received at the store, they are marked with the cost price and the selling price. If goods are sent to your house on a 30 day credit basis, there is no extra charge, but if the account is not paid then, there is a charge of interest on deferred payments. They have no instalment sale plan. They have a modified form in Woodward's, but not in Spencers.

By Mr. Sommerville:

Q. Here you have tea waggons from Napanee?—A. Purchase price laid down was $19.40, sold at $32.50, a mark-up of 67·52 per cent.

Q. Then there is the item of Vanity Chairs purchased in Vancouver?—A. They were purchased at a cost of $10.33, marked up to $15.90; a mark-up of 63·60 per cent.

Q. Walnut tables from Stratford?—A. Cost $1.06, sold for $1.69; a mark-up of 59·34 per cent.

By Mr. Young:

Q. A walnut table, you say, for a dollar?—A. So-called.

Mr. SOMMERVILLE: Laid down in Vancouver?

The WITNESS: That may be what they call B. C. walnut.

By Mr. Sommerville:

Q. Cedar chests?—A. Purchased for $21.73 laid down, sold at $34.58; a mark-up of 58·76 per cent.

Q. Then you have Beach Umbrellas from Stratford?—A. They cost $2.98 laid down, they sold for $4.50; a mark-up of 51 per cent.

Q. Fern stands?—A. Purchased in Vancouver at $1.06, sold for $1.60; a mark-up of 51 per cent.

Q. Bedroom suites from Vancouver—further down?—A. Purchased at a cost of $52.50, that includes tax, sold at $69; a mark-up of 31 per cent. These 18 chesterfields at the last were purchased at a cost of $31.97, sold for $29.50—that is a definite loss leader.

Mr. HEAPS: Would they be a loss leader, or would it be a bad buy?

By Mr. Sommerville:

Q. It is a quantity, 18?—A. Might I point out, Mr. Heaps, that these mark-ups I am giving you are not the prices at which the goods are marked when they are sold, it is the price at which the goods are marked when they come into the store. When the goods come into the store the practice in all departmental stores, as we will explain later, is to put the selling price right on the goods at that time, their mark-up—the price which it is expected will be obtained in them subject to later fluctuation, if they do not sell for that price.

Q. Take these chesterfields, was that the original marked price?—A. When the invoices came in.

Q. Then the intention was to take a loss on them?—A. Oh yes.

The CHAIRMAN: Loss leaders.

By Mr. Sommerville:

Q. They came from Montreal?—A. Yes.

Q. Then you have some samples of ladies' shoes?—A. In that statement we find that the maintained mark-up is 40 per cent—that is the ladies' shoe department.

Q. The maintained mark-up in the ladies' shoe department is?—A. 40 per cent; and the initial mark-up run from $87\frac{1}{2}$ per cent to 11 per cent.

Q. You see here some black satin strap slippers?—A. They were purchased in Kitchener at $3.20, sold at $6; a mark-up of $87\frac{1}{2}$ per cent.

Q. Green slippers?—A. Purchased in Toronto at $1.31, marked up to $2.45; a mark-up of 87 per cent.

The CHAIRMAN: Will you speak a little louder, please.

Q. Brown glazed Hiawathas?—A. Purchased in Quebec at $1.10, marked up to $1.95; a mark-up of 77 per cent.

Q. Women's white slippers?—A. Purchased at 74 cents, marked up to $1.25; a mark-up of 68 per cent.

Q. Brown calf oxfords?—A. These were purchased in Galt at a cost of $3.03, they were marked up to $5, a mark-up of 65 per cent.

An Hon. MEMBER: What about Cinderella slippers?

Mr. SOMMERVILLE: They were just fresh out of Cinderella slippers apparently.

By Mr. Sommerville:

Priscilla oxford rubbers?—A. Purchased at $1.69, marked up to $2.75; a mark-up of 62 per cent.

Q. Grafton ties, blue suede?—A. These were purchased at a cost of $3.91, they were marked up to $6; a mark-up of 53 per cent.

Q. White Nurse's oxfords?—A. $3.59, mark-up $5.45, 51 per cent.

Q. Women's Splasho Rubbers?—A. $1.12, mark-up $1.31, 17 per cent.

Q. Men's clothes?—A. Maintained mark-up, 36·9 per cent. The mark-up runs from 97 per cent to 23 per cent.

Q. Men's Bathrobes?—A. Purchased from Montreal for $3, laid down $3.44, mark-up $6.50, 89 per cent.

Q. Men's Pants? Made in Edmonton?—A. $2.40, mark-up, $4.75, 98 per cent.

Q. Overcoats, Montreal?—A. $10.80, mark-up $19.75, 81 per cent.

Q. Men's gowns, Toronto?—A. $5.20, mark-up $9, 73 per cent.

Q. Tuxedos and silk vests, Montreal?—A. $16.80, mark-up, $27.50, 63 per cent.

Q. Men's suits from the same firm in Montreal?—A. $11.94, mark-up, $19.50, 63 per cent.

Q. That is a firm you have the report upon?—A. We will have a report on it later.

Q. Cravenette coats?—A. $8.45, mark-up, $13.50, 60 per cent.

Q. O.K. Fish Brand Medium Coat?—A. Purchased at $4.02, mark-up, $6.25, 55 per cent.

Q. Blue High Back Overalls?—A. Purchased at $1.61, mark-up, $2.25, 39 per cent.

Q. Men's suits, 2 pants?—A. $17.02, mark-up $23.50, 38 per cent.

Q. Men's Overall Pants?—A. $1.10, mark-up $1.50, 36 per cent.

Q. The maintained mark-up on the department was 36·9 per cent?—A. Yes.

Q. Butter and egg department. I see you observe that the maintained departmental mark-up for 1933 is 30·4?—A. That is including fresh meats. They are together.

Q. Now, let us get some of these fresh meats. Pork tenderloin?—A. Pork tenderloin, 10¼ pounds for 18 cents, sold at 30 cents, 66·67 per cent.

Q. Premium bacon, 25 pieces?—A. 25 cents sold at 35 cents, 37 per cent.

Q. Beef tongues?—A. 11 cents, sold at 18 cents, 63 per cent.

Q. Chickens?—A. Purchased at 22 cents sold for 30 cents, 36 per cent.

Q. Shoulder of pork?—A. There was a loss. They purchased for 11 cents and sold for 10 cents.

Q. That is a loss leader?—A. I do not know whether it is.

Q. 323 pounds?—A. The butts were sold at a slight profit.

Q. Boys' clothing?—A. Maintained mark-up in 1933, 47·5 per cent; initial mark-up, 120 per cent to 5 per cent.

Q. Youths' coats from the firm in Toronto we have referred to as not paying minimum wage?—A. Laid down $4.84, mark-up $8.95 and $10.95, mark-up range 84 per cent to 126 per cent.

The CHAIRMAN: Made in a sweatshop.

By Mr. Sommerville:

Q. There is no doubt about that. Boys' Shorts?—A. Purchased for $1, mark-up $2.20, 120 per cent.

Q. Boys' Trench Coats?—A. Purchased at $2.80, mark-up $5.95—112 per cent.

Q. Boys' Overcoats?—A. Laid down $3.97, mark up $7.95—100 per cent.

Q. Juniors' Overcoats?—A. $7.11 laid down, mark-up $13.95—96 per cent.

Q. Juvenile Coats?—A. $2.52, mark-up $4.50—78 per cent.

Q. That is all very moderately priced stuff?—A. Moderate priced stuff.

Q. That is a $2.52 coat is put up to $4.50 and that indicates it is moderate priced clothing that is raised in that way. Peel, 3-piece suits?—A. Purchased at $6.37, mark-up, $10.95—72 per cent.

Mr. Heaps: Men's suits?

Mr. Sommerville: Boys' suits.

By Mr. Sommerville:

Q. Corduroy Breeches?—A. $1.16, mark-up $1.95—68 per cent.

Q. And they come from Montreal. Here is another one from this Toronto firm, J. A. Coats, whatever they are?—A. Price $4.77 laid down, mark-up $7.95 —66 per cent.

Q. King 3-piece suits, Montreal?—A. Price $5.56, mark-up $8.95—60 per cent.

Q. Boys' Suits again, 112 suits?—A. $3.71, mark-up $5.95—60 per cent.

Q. Boys Longs?—A. Purchase price $1.90, mark-up, $2.95—55 per cent.

Q. Boys' Bloomers?—A. $1.29, mark-up $1.95—51 per cent.

Q. The significant thing about these mark-ups is the way they run—$3.95, $4.95, $1.95, $8.95, $13.95 and so on up the line.

Mr. Young: There are no 99's?

Mr. Sommerville: No, 95, just under the dollar.

By Mr. Sommerville:

Q. There is a large quantity of straights, whatever they are. Boys' Straights? —A. Purchased at $1.15, mark-up $1.75—52 per cent.

Q. Boys' Sheepskin Coats?—A. Purchased at $3.37, mark-up $4.95—46 per cent.

Q. Now, we have groceries. Maintained mark-up on groceries?—A. 14·9 per cent.

Q. Tomatoes $2\frac{1}{2}$'s?—A. Tomatoes, mark-up 56 per cent.

The Chairman: You had better give us the figures.

The Witness: Unit cost ·083, mark-up, ·13.

By Mr. Sommerville:

Q. Pea soup, 10 ounces?—A. Cost ·054, mark-up ·08—48 per cent.

Q. Oxo cubes?—A. ·076, sold for 11 cents—44 per cent.

Q. Puffed Wheat?—A. ·09, mark-up 13 cents—44 per cent.

Q. Coarse Oatmeal?—A. ·217, mark-up ·29—33 per cent.

Q. Apricots?—A. ·146, mark-up ·19—30 per cent.

Q. Orange Peko Tea?—A. ·225, mark-up ·29—28 per cent.

Q. Coffe?—A. 36 cents, mark-up 45 cents—25 per cent.

Q. Sunlight Soap?—A. ·163 cost, mark-up ·19—16 per cent.

Q. Purity Flour?—A. Purchased for 75 cents—that is 4-24 bag—mark-up 85 cents—13 per cent.

Q. Baking Powder?—A. ·65, mark-up ·71 cents—9 per cent.

Q. Sugar. Is that a loss leader?—A. Not quite. Purchased at $6.60, sold at $6.70.

Q. A hundred?—A. Yes.

Q. Fruit and vegetables?—A. Maintained mark-up for 1933, 33·6 per cent. The mark-ups go from 134 per cent down to 15 per cent.

Q. That is mostly fresh vegetables and fruits?—A. Mostly stuff of that sort.

Q. Here are men's shoes?—A. Maintained mark-up for 1933, 46·8 per cent marks-ups running from 74 per cent to 27 per cent.

Q. Brown Dong. Romeo?—A. Purchased Montreal for $2.26, mark-up $3.95—74 per cent.

Q. Green Slippers?—A. Purchased $1.41, mark-up $2.45—73 per cent.

Q. Men's Black Oil G's?—A. $2.33, mark-up $3.95—69 per cent.

Q. Black Kid Bals?—A. Purchase price $3.26 mark-up $5.50—68 per cent.

Q. Men's Patent Oxfords?—A. Purchased at $3.11 mark-up $5—60 per cent.

Q. P.R.A. Black Kid Bluchers?—A. $5.02, mark-up $8—59 per cent.

Q. Black Kid Bluchers again?—A. Purchase price $3.72, mark-up $5.85—57 per cent.

Q. Brown Calf and Pebbler Oxfords?—A. Purchase price $2.25, mark-up $3.49—55 per cent.

Q. Black Men's Soft Toe Shoes?—A. $2.67, mark-up $3.95—48 per cent.

Q. Men's Habitant Cleated?—A. Price $4, mark-up $5.75—43 per cent.

Q. That is rubber footwear?—A. Yes.

Q. These are some fair samples of the mark-ups throughout that store?—A. Yes.

Q. Now, you are filing also the report from the Victoria store made in the same way?—A. Made in the same way. The difference is not material.

Q. But the mark-ups are substantially the same?—A. The mark-ups are substantially the same.

Q. And the conditions that you already describe of the Vancouver store apply equally to the Victoria store?—A. Yes. Then on the printed statement is a report on the wage.

(David Spencer Co., Ltd., schedule, filed marked Exhibit 214.)

Q. Now, the wage schedule?—A. It is on the right-hand side on the top of the sheet and we show there the department, the number of employees employed and the high, low and average wages for the year 1933.

The CHAIRMAN: That is in Vancouver?

The WITNESS: That is in Vancouver.

By the Chairman:

Q. Might I ask you this. I notice in the "low" column quite a number enumerated as $7, $7.50, $7.50, $8, $5, $7, $7, $8, $6, $7, $8, and $8. Now, I notice that the minimum wage law clause, if I remember rightly, prescribes $9. Did you examine this in connection with the minimum wage law regulations?—A. I instructed our agent to do so.

Q. What is his report?—A. That they had not any knowledge nor could find out that they had broken the clauses of the minimum wage law.

Q. Are we to presume wages that are enumerated here as below the minimum wage rate—that is the minimum wage rate for adults—come under that classification? For instance, I notice that the regulation says: "Under eighteen years of age $7.50 for the first three months; $8 for the second and $8.50 for the third" and so on?—A. I think that is the case.

Q. That is the explanation.

By Mr. Heaps:

Q. Are some of these temporary employees?—A. I think if my instructions were carried out—and I believe they were—this is based on a full week.

Q. Let me show you one item here, Willow Ware china. I think you show a low wage here of $5. Would that be for a full week. I pointed out to you on a previous page Willow Ware china, bankrupt stock, item 126. That showed a spread there in the prices charged of 254 per cent.

Mr. SOMMERVILLE: Yes, that was a bankrupt stock of china and in a large portion of it there was a large mark-up of 250 per cent.

By Mr. Heaps:

Q. The point I am making now is that someone evidently received $5 for all purposes on a sum of something like 200 per cent?—A. I would like to be definite in answer to your question, and my understanding is that all of these are based upon a full week's pay. In regard to that particular case, I would like to find out definitely.

Q. If it would apply to that case it would apply to all?—A. Yes.

By the Chairman:

Q. Then on the next page, in the Vancouver store, we find one $8; another $7?—A. And you find the odd one of $6 and $6.50.

Q. $7.25; another $6.50; $7; $7.50; and one at $5.50.—A. That is what they call the auxiliary staff, the part time staff.

Q. The others are in departments?—A. Yes.

Q. Well, will you check on that to make certain?—A. I will have that checked on to-night, Mr. Chairman.

Q. That it is accounted for by coming within the regulations set out in the Minimum Wage Law?—A. Yes.

By Mr. Heaps:

Q. Are these people who are employed there on a weekly rate?—A. Yes, a weekly rate.

By the Chairman:

Q. Are they fairly steadily employed?—A. Yes, they are fairly steadily employed. There is very little part time employment in Spencer's.

By Mr. Sommerville:

Q. And in the Spencer Vancouver store there are 721 employees?—A. Yes.

Q. And in the Spencer Victoria store there are 420 employees?—A. Yes.

Q. And in the New Westminster Spencer Store there are 46 employees?—A. Yes.

By Mr. Heaps:

Q. Are these employees paid for all legal holidays?—A. I am afraid I cannot answer that definitely. I will make that a matter also of my inquiry to-night.

Q. Have you any information as to whether they receive any holidays during the year?—A. I have already wired for that information, Mr. Heaps. I would like to read you this section of the report that was made to me:

> In connection with auxiliaries and extra help, these would all be paid, in the case of females, at the minimum wage or more and would be employed for times such as special sales, Christmas, and other events that require more than our usual staff.

They might fall into that category, but I will inquire and clear that up to your satisfaction, and my own as well.

By Mr. Sommerville:

Q. In the case of Spencer's there is a much larger advertising appropriation?—A. Yes, three times as much.

Q. I observe in the report here that the total advertising in the two Vancouver papers for the Vancouver store amounted to 1,647,814 lines in the year 1933?—A. Yes. There was another point I would like to speak to, that is, as to consignment stocks. There are no consignment stocks as such in either the Woodward's or the Spencer store in Vancouver.

Q. And I suppose there is also a substantial number of loss leaders?—A. Loss leaders in both stores.

By Mr. Heaps:

Q. In going through the books of the company, did you find that most of the goods purchased were made in the Dominion of Canada?—A. Oh yes, almost all; a very small percentage made outside.

Mr. SOMMERVILLE: Now then, we will have the Army and Navy Department Stores, Regina.

The WITNESS: Mr. Sommerville, would you like me to file a little summary for the Spencer store the same as the Woodward stores?

Mr. SOMMERVILLE: Yes, if you will file the same kind of summary for Spencer's as in the case of Woodward's.

The WITNESS: I will do that to-morrow morning.

By Mr. Sommerville:

Q. Now, have you got the statements for the Army and Navy Department stores?—A. Yes.

Statement No. 1

ARMY AND NAVY DEPARTMENT STORES

Statement of Assets and Liabilities

As at 31st March, 1934 (approximate) (Vancouver as at 31st May, 1933)

—	Army and Navy Department Store, Regina, Sask. (31st March, 1934 approximate)	Army and Navy Department Store, Vancouver, B.C. (31st May, 1933)	Army and Navy Department Store, Limited, Edmonton, Alta. (28th February, 1934, approximate)	Totals	
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Assets					
Cash on hand	10,900 97	25 00	2,447 00		13,372 97
Cash in Bank	....	....	333 93		333 93
Accounts Receivable	8,520 87	950 00	3,315 12		12,785 99
Inventory of Merchandise	401,046 51	12,096 88	158,552 13		571,695 52
	420,468 35	13,071 88	164,648 18		598,188 41
Sundry Loans, etc., to Shareholders and others (deferred)	....	....	12,958 04		12,958 04
Furniture and Fixtures	5,913 03	....	2,837 60		8,750 63
Autos and Delivery Trucks	1,022 28	....	....		1,022 28
Real Estate	173,664 42				173,664 42
	601,068 08	13,071 88	180,443 82		794,583 78
Unexpired Insurance	1,262 73	....	1,000 00		2,262 73
Sundry Supplies on hand, etc.	4,374 76	25 00	2,174 81		6,574 57
Advertising Prepaid	....	....	....		....
Parcel Postage Prepaid					
	606,705 57	13,096 88	183,618 63		803,421 08
Inter-Company Accounts	45,764 76	**20,943 29**	**40,697 66**		* **15,876 19**
	652,470 33	**7,846 41**	142,920 97		787,544 89
Liabilities					
Accounts Payable	105,982 94	523 08	24,237 93		130,743 95
Bills Payable	75,454 39	737 15	5,249 40		81,440 94
Bank Loan	40,000 00	1,500 00	....		41,500 00
Bank Overdraft	13,334 28	461 64	....		13,795 92
Accrued Wages	....				
Accrued Rents	....	6,510 25	....		6,510 25
	234,771 61	9,732 12	29,487 33		273,991 06
Mortgages Payable—					
Mutual Life Assurance Company	19,000 00	....	....		19,000 00
Confederation Life Assurance Company	36,000 00	....	....		36,000 00
Northern Trust Company	17,000 00	....	....		17,000 00
Sundry Loans—					
S. Weimer	10,000 00	....	....		10,000 00
C. R. Israel	25,300 88	....	....		25,300 88
K. Lishgold	....	....	4,000 00		4,000 00
Capital Stock and Surplus—Army and Navy Department Store Limited, Edmonton	....	....	109,433 64	109,433 64	
Partnership Capital	310,397 84	**17,578 53**	....	292,819 31	402,252 95
	652,470 33	**7,846 41**	142,920 97		787,544 89

* $17,500 remitted by Edmonton to Regina in March, 1934.

Losses are shown in black type.

ARMY AND NAVY DEPARTMENT STORE, REGINA, SASKATCHEWAN

STATEMENT No. 2

COMPARATIVE BALANCE SHEETS FOR THE YEARS 1928–1933

—	15th February 1928	28th February 1929	28th February 1930	28th February 1931	29th February 1932	28th February 1933	31st March 1934 (approximate)
ASSETS	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Cash on hand	210 85	1,065 16	1,828 50	20,295 25	2,430 12	2,355 91	10,900 97
Cash in Bank	....	....	....	1,077 02	23,466 34	....	....
Accounts Receivable	3,785 51	7,057 26	8,913 50	20,244 71	14,071 19	44,952 40	54,285 63
Inventory of Merchandise	204,125 61	330,687 20	209,950 70	244,679 73	327,629 70	360,018 16	401,046 51
Total Current Assets	208,121 97	338,809 62	220,692 70	286,296 71	367,597 35	407,326 47	466,233 11
Furniture and Fixtures	1,929 45	4,717 26	8,496 43	8,895 51	7,673 85	6,432 19	5,913 03
Autos and Delivery Trucks	588 75	4,339 21	3,272 16	3,466 16	3,963 98	2,820 96	1,022 28
Real Estate	9,996 61	128,491 01	127,439 48	180,241 22	181,895 50	177,779 96	173,664 42
Total Current and Fixed Assets	220,636 78	476,357 10	359,900 77	478,899 60	561,130 68	594,359 58	646,832 84
Unexpired Insurance	732 67	2,030 93	1,361 95	1,965 85	1,736 90	1,701 51	1,262 73
Sundry Supplies on hand	200 00	....	1,118 77	790 75	1,057 00	678 46	4,374 76
Advertising Prepaid	....	....	30 00	....	....	....	....
Parcel Postage Prepaid	....	....	....	92 11	....	....	....
Total Assets	221,569 45	478,388 03	362,411 49	481,748 31	563,924 58	596,739 55	652,470 33
LIABILITIES AND CAPITAL							
Accounts Payable	35,800 52	93,594 28	42,701 65	42,579 00	98,684 28	73,683 39	105,982 94
Bills Payable	28,647 63	68,553 83	14,023 86	34,333 66	43,239 70	31,904 77	75,454 39
Bank Loan	25,000 00	50,000 00	....	45,000 00	50,000 00	75,000 00	40,000 00
Bank Overdraft	17,133 89	7,981 92	1,468 49	....	....	5,973 33	13,334 28
Accrued Wages	325 00	1,398 03	....	....	....	....	....
Rent Prepaid	....	....	....	300 00	....	....	....
Total Current Liabilities	106,907 04	221,528 06	58,194 00	122,212 66	191,923 98	186,561 49	234,771 61
Mortgage—Mutual Life Assurance Co	....	24,250 00	22,750 00	21,250 00	20,071 00	19,301 15	19,000 00
Confederation Life Assurance Co	....	45,000 00	46,000 00	42,000 00	38,520 00	36,480 75	36,000 00
Northern Trust Co	....	....	....	23,000 00	19,332 50	17,189 10	17,000 00
Sundry Loans	....	....	....	....	....	35,300 88	35,300 88
Total Liabilities	106,907 04	290,778 06	126,944 00	208,462 66	269,847 48	294,833 37	342,072 49
Capital	114,662 41	187,609 97	235,467 49	273,285 65	294,077 10	301,906 18	310,397 84
Total Liabilities and Capital	221,569 45	478,388 03	362,411 49	481,748 31	563,924 58	596,739 55	652,470 33

Analysis—Capital Account							
Balance beginning of period	83,131 30	114,662 41	187,609 97	235,467 49	273,285 65	294,077 10	301,906 18
Net Profit transferred	40,326 84	41,818 38	44,627 98	49,608 52	32,871 93	23,141 75	29,105 11
Partners' Withdrawals	**8,795 73**	**18,356 54**	**16,003 47**	**11,790 36**	**12,080 48**	**15,312 67**	**20,613 45**
Additions to Capital	....	49,485 72	19,233 01	....	....	....	....
Balance End of Period	114,662 41	187,609 97	235,467 49	273,285 65	294,077 10	301,906 18	310,397 84
Sums owing to Regina by the Vancouver Branch at the above dates and included under "Accounts Receivable" above	....	6,700 09	7,915 56	11,163 85	11,663 85	20,622 57	22,567 10
Sums owing to Regina by the Army and Navy Stores Limited, Edmonton, at above dates and included under "Accounts Receivable" above	....	....	....	....	....	18,721 05	23,197 66

Losses are shown in black type.

Statement No. 3.

ARMY AND NAVY DEPARTMENT STORE, REGINA, SASKATCHEWAN

Comparative Trading and Profit and Loss Account for the Years Ended 28th February, 1928–1933

—	1st May 1927 to 15th Feb. 1928	15th Feb. 1928 to 28th Feb. 1929	1st Mar. 1929 to 28th Feb. 1930	1st Mar. 1930 to 28th Feb. 1931	1st Mar. 1931 to 28th Feb. 1932	1st Mar. 1932 to 28th Feb. 1933	1st March, 1933, to 31st March, 1934 — Approximate—subject to any additional Salaries or Bonuses		
							Regina	Moose Jaw	Total
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Sales—Retail Store	114,715 06	313,360 34	614,965 95	706,549 27	708,954 66	615,402 74	678,039 48	120,467 07	798,506 55
Mail Order	786,341 56	1,462,327 45	1,128,659 15	1,108,798 49	1,608,661 09	1,691,287 05	1,309,051 63		1,309,051 63
Total Sales	901,056 62	1,775,687 79	1,743,625 10	1,815,347 76	2,317,615 75	2,306,689 79	1,987,091 11	120,467 07	2,107,558 18
Less—Refunds and Allowances	20,846 67	71,925 31	65,497 94	36,328 32	56,424 85	56,898 87	45,480 47	1,652 88	47,133 35
Net Sales	880,209 95	1,703,762 48	1,678,127 16	1,779,019 44	2,261,190 90	2,249,790 92	1,941,610 64	118,814 19	2,060,424 83
Cost of Goods Sold—									
Inventory beginning period	159,776 66	204,125 61	330,687 20	209,950 70	244,679 73	327,629 70	360,018 16		360,018 16
Purchases	686,573 96	1,353,687 01	1,058,192 66	1,286,771 71	1,728,170 41	1,698,714 29	1,381,427 77	131,387 49	1,512,815 26
Freight, Duty and Express	38,279 37	78,075 06	49,266 03	52,395 00	71,228 48	73,150 67	57,014 97	819 04	57,834 01
	884,629 99	1,635,887 68	1,438,145 89	1,549,117 41	2,044,078 62	2,099,494 66	1,798,460 90	132,206 53	1,930,667 43
Less—Inventory end of period	204,125 61	330,687 20	209,950 70	244,679 73	327,629 70	360,018 16	357,684 94	43,361 57	401,046 51
Net Cost	680,504 38	1,305,200 48	1,128,195 19	1,304,437 68	1,716,448 92	1,739,476 50	1,440,775 96	88,844 96	1,529,620 92
Other Income—									
Purchase Discounts	1,879 52	3,717 58	3,437 92	5,281 63	6,853 43	6,621 01	3,931 50	2 83	3,934 33
Commissions	1,455 72						109 64		109 64
Rentals Received		545 17	2,896 99	3,380 09	2,959 31	3,828 21	4,829 10		4,829 10
Total Other Income	3,335 24	4,262 75	6,334 91	8,661 72	9,812 74	10,449 22	8,870 24	2 83	8,873 07

SUMMARY

Net Sales	880,209 95	1,703,762 48	1,678,127 16	1,779,019 44	2,261,190 90	2,249,790 92	1,941,610 64	118,814 19	2,060,424 83
Cost of Goods Sold	680,504 38	1,305,220 48	1,228,195 19	1,304,437 68	1,716,448 92	1,739,476 50	1,440,775 96	88,844 96	1,529,620 92
Gross Profit on Sales	199,705 57	398,562 00	449,931 97	474,581 76	544,741 98	510,314 42	500,834 68	29,969 23	530,803 91
Other Income	3,335 24	4,262 75	6,334 91	8,661 72	9,812 74	10,449 22	8,870 24	2 83	8,873 07
Total Gross Profit	203,040 81	402,824 75	456,266 88	483,243 48	554,554 72	520,763 64	509,704 92	29,972 06	539,676 98
General and Overhead Expenses	162,713 97	361,006 37	411,638 90	433,634 96	521,682 79	497,621 89	482,595 29	27,976 58	510,571 87
Net Profit	40,326 84	41,818 38	44,627 98	49,608 52	32,871 93	23,141 75	27,109 63	1,995 48	29,105 11
Mark up percentage on cost of goods sold	29·33%	30·54%	36·64%	36·39%	31·74%	29·34%	34·76%	33·73%	34·70%

*10 months only.

Statement No. 4

ARMY AND NAVY DEPARTMENT STORE, REGINA, SASKATCHEWAN

STATEMENT OF GENERAL AND OVERHEAD EXPENSES FOR PERIOD 1ST MARCH, 1933, TO 31ST MARCH, 1934

—	Regina	Moose Jaw	Total
	$ cts.	$ cts.	$ cts.
Parcel Postage	100,575 25	....	100,575 25
Freight and Express out	2,753 35	..	2,753 35
Salaries and Wages	146,489 21	15,019 18	161,508 39
Advertising	152,993 19	4,828 99	157,822 18
Fire and Auto Insurance	3,696 34	217 40	3,913 74
Legal and Accounting Fees	2,165 32	....	2,165 32
Light, Power and Water	6,965 81	1,379 53	8,345 34
Paper and Twine	8,498 52	651 12	9,149 64
Rent	6,875 00	2,100 00	8,975 00
Postage, Excise and Exchange	642 80	135 44	778 24
Repairs, Renewals and Alterations	6,384 76	1,483 52	7,868 28
Printing and Stationery	1,740 33	171 37	1,911 70
Business and Property Taxes	10,901 57	315 60	11,217 17
Telephone and Telegraph	1,865 98	250 39	2,116 37
Truck and Auto Expense	1,589 30	....	1,589 30
Travelling and Buying Expense	2,744 75	508 89	3,253 64
Interest	11,859 01	0 50	11,859 51
Depreciation	5,890 52	....	5,890 52
Bad Debts	40 45	21 25	61 70
General Expense	836 12	98 14	934 26
Fuel	3,384 24	720 26	4,104 50
Donations	400 00	75 00	475 00
Income Tax	3,303 47	....	3,303 47
	482,595 29	27,976 58	510,571 87

Statement No. 5.

ARMY AND NAVY DEPARTMENT STORE, VANCOUVER, B.C.

Comparative Balance Sheets for the Years 1928–1933

—	31st Dec. 1928	31st Dec. 1929	31st Dec. 1930	31st Dec. 1931	30th April 1932	31st May 1933
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Assets						
Cash on hand	25 00	25 00	25 00	25 00	25 00	25 00
Cash in Bank	1,143 82					
Deposit—B.C. Electric Railway Co.	45 00	45 00	25 00	25 00	25 00	25 00
Inventory of Merchandise	28,462 78	33,508 02	26,065 78	10,456 98	9,347 52	12,096 88
S. T. Cohen—Loan						950 00
Rent Prepaid		126 28				
Total Assets	29,676 60	33,704 30	26,115 78	10,506 98	9,397 52	13,096 88
Liabilities and Capital						
Accounts Payable	5,679 41	11,667 86	17,016 14	15,375 71	17,665 54	21,466 37
Notes payable	1,507 74	8,395 37	5,621 05	1,449 64	1,118 90	737 15
Rent Accrued	181 76		428 50	2,743 65	4,162 25	6,510 25
Bank Overdraft		1,057 21	643 43	361 75	391 39	461 64
Bank Loan			1,945 00	1,345 00	750 00	1,500 00
Sundry Loans					345 00	
Total Liabilities	7,368 91	21,120 44	25,654 12	21,275 75	24,433 08	30,675 41
Capital	22,307 69	12,583 86	461 66	**10,768 77**	**15,035 56**	**17,578 53**
Total Liabilities and Capital	29,676 60	33,704 30	26,115 78	11,506 98	9,397 52	13,096 88
Analysis—Capital Account						
Balance beginning of period	32,363 59	22,307 69	12,583 86	461 66	**10,768 77**	**15,035 56**
Loss for the period transferred	**10,055 90**	**9,723 83**	**12,122 20**	**11,230 43**	**4,266 79**	**2,542 97**
Balance End of Period	22,307 69	12,583 86	461 66	**10,768 77**	**15,035 56**	**17,578 53**
Note.—Loans by Regina to cover operating deficits included in Accounts Payable. These amount at the above dates to		5,115 56	9,163 85	12,563 85	14,313 85	20,943 29

Losses are shown in black type.

Statement No. 6.

ARMY AND NAVY DEPARTMENT STORE, VANCOUVER, B.C.

COMPARATIVE TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEARS 1927–1933

—	1st Nov. 1927– 31st Dec. 1928	1st Jan. 1929– 31st Dec. 1929	1st Jan. 1930– 31st Dec. 1930	1st Jan. 1931– 31st Dec. 1931	1st Jan. 1932– 30th April 1932	1st May 1932– 31st May 1933
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Merchandise Sales	104,467 96	74,217 51	72,422 37	48,791 96	7,900 68	27,829 93
Less—Refunds	743 51	455 90	384 23	217 15	56 45	72 98
Net Sales	103,724 45	73,761 61	72,038 14	48,574 81	7,844 23	27,756 95
Cost of Goods Sold—						
Inventory beginning of period	....	28,462 78	33,508 02	26,065 78	10,456 98	9,347 52
Purchases	102,414 96	61,526 72	48,102 30	22,268 10	5,049 54	20,996 62
Freight and Duty	5,672 53	2,340 84	1,820 14	919 80	97 31	860 34
	108,087 49	92,330 34	83,430 46	49,253 68	15,603 83	31,204 48
Less—Inventory end of period	28,462 78	33,508 02	26,065 78	10,456 98	9,347 52	12,096 88
Net Cost	79,624 71	58,822 32	57,364 68	38,796 70	6,256 31	19,107 60
Other Income—						
Interest and Discounts	89 00	154 78	....	....	....	....
General and Overhead Expenses	34,244 64	24,817 90	26,795 66	21,008 54	5,854 71	11,192 32

SUMMARY

Sales	103,724 45	73,761 61	72,038 14	48,574 81	7,844 23	27,756 95
Cost of Goods Sold	79,624 71	58,822 32	57,364 68	38,796 70	6,256 31	19,107 60
Gross Profit on Sales	24,099 74	14,939 29	14,673 46	9,778 11	1,587 92	8,649 35
Other Income	89 00	154 78	....	....	....	....
Total Gross Profit	24,188 74	15,094 07	14,673 46	9,778 11	1,587 92	8,649 35
General and Overhead Expense	34,244 64	24,817 90	26,795 66	21,008 54	5,854 71	11,192 32
Net **Loss**	**10,055 90**	**9,723 83**	**12,122 20**	**11,230 43**	**4,266 79**	**2,542 97**

Statement No. 7

ARMY AND NAVY DEPARTMENT STORE, VANCOUVER, B.C.

STATEMENT OF GENERAL AND OVERHEAD EXPENSES FOR PERIOD 1ST MAY, 1932, TO 31ST MAY, 1933

Advertising	$ 349 54
Rent	4,150 00
Wages	4,555 38
Telephone and Telegrams	97 74
Fuel and Light	648 42
Paper and Wrapping Supplies	85 37
Repairs and Store Alterations	210 63
Fire Insurance	265 74
Miscellaneous Expense	372 94
Interest and Discount	131 56
Accounting Fees	325 00
	$ 11,192 32

Statement No. 8

ARMY AND NAVY DEPARTMENT STORE LIMITED, EDMONTON, ALBERTA

COMPARATIVE BALANCE SHEETS FOR THE YEARS 1933-1934

—	28th February 1933	28th February 1934
	$ cts.	$ cts.
ASSETS		
Current—		
Cash on hand	1,703 52	2,447 00
Cash in Bank	2,146 76	333 93
Accounts Receivable	2,401 29	3,315 12
Inventory of Merchandise on hand	159,139 74	158,552 13
Total Current Assets	165,391 31	164,648 18
Fixed—		
Furniture and Fixtures	2,984 58	2,837 60
Alterations subject to Lease	1,333 34	....
	4,317 92	2,837 60
Total Current and Fixed Assets	169,709 23	167,485 78
Deferred—		
Loans	5,400 00	12,958 04
Unexpired Insurance	674 20	....
Deposits	280 00	537 70
Defreed Charges	....	2,637 11
	6,354 20	16,132 85
	176,063 43	183,618 63
LIABILITIES AND CAPITAL		
Current—		
Accounts Payable (including Regina)	44,938 67	64,935 59
Bills Payable	8,447 99	5,249 40
Bank Loan	10,000 00	....
Loan	10,002 39	4,000 00
Total Liabilities to the Public	73,389 05	74,184 99
Capital and Surplus	102,674 38	109,433 64
	176,063 43	183,618 63
ANALYSIS—CAPITAL ACCOUNT		
Balance, beginning of period	100,000 00	102,674 38
Net Profit	2,674 38	6,759 26
	102,674 38	109,433 64
Liability to Army and Navy Department Store, Regina, included in Accounts Payable	18,721 05	40,697 66

Statement No. 9

ARMY AND NAVY DEPARTMENT STORE LIMITED, EDMONTON, ALBERTA

COMPARATIVE TRADING AND PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 28TH FEBRUARY, 1933 AND 1934

—	28th February 1933	28th February 1934
	$ cts.	$ cts.
Income from Sales	625,042 89	729,433 57
Less Refunds	7,143 07	7,257 35
	617,899 82	722,176 22
Cost of Sales—		
Inventory, March 1st	104,483 48	159,139 74
Purchases	521,992 46	574,298 51
Freight and Express	17,396 54	14,118 78
	643,872 48	747,557 03
Inventory, February 28th	159,139 74	158,552 13
Cost of Goods Sold	484,732 74	589,004 90
Gross Profit on Sales	133,167 08	133,171 32
Purchase Discounts and other Income	1,330 60	2,381 76
	134,497 68	135,553 08
Departmental Expenses—		
Fuel	994 03	736 85
Advertising	37,247 82	31,455 72
Bad Debts	105 41	97 13
Depreciation	349 48	371 98
Delivery	1,414 15	2,023 00
Insurance	913 78	1,868 84
Legal, Licence and Audit	1,068 27	1,840 15
Light, Power and Water	3,543 42	3,604 76
Paper, Twine and Labels	5,298 42	3,755 26
Rent	13,777 50	13,950 00
Repairs and Alterations	3,034 65	3,935 22
Alterations subject to lease	666 66	....
Printing and Stationery	140 80	543 55
Taxes and Licences	1,075 50	2,514 35
Telephone and Telegrams	738 55	767 78
Travelling and Buying	724 14	1,145 95
Wages	55,758 67	58,664 64
S. D. Leshgold—Salary	1,800 00	*
Bonus	2,000 00	*
Donations	40 00	111 00
Postage and Excise Stamps	39 35	71 83
Interest paid	333 90	538 37
General Expense	758 80	797 44
	131,823 30	128,793 82
Net Profit for Year	2,674 38	*6,759 26

* Results subject to salary and bonuses not yet settled.

Statement No. 10

ARMY AND NAVY STORE, REGINA, SASKATCHEWAN

EXAMPLES OF CLEARING LINES OFFERED BY MANUFACTURERS AND JOBBERS

April, 1934	Bought through E. H. Walsh and Company Limited, Hammond Building, Winnipeg 356½ doz. full-fashioned silk hose, manufactured by Butterfly Hosiery Company, Limited, Drummondville, Que., at $4.25 per dozen. This is a regular $6.50 line selling ordinarily at a retail price of 75c. per pair. This purchase will be catalogued (new catalogue) and sold at 50c. per pair.
April 18th, 1934	Offer received from Wellesley Wear Limited, Wellesley, Ont., of 100 dozen boys' windbreakers at a clearing price of $8.00. This is regular $11.50 line.
April 19th, 1934	Offer received from Acme Glove Works Limited, of mocassins. Job lots to clear. Quantities about 1,000 dozen at about one-third off present regular prices. Could buy this and catalogue at good price.
March 17th, 1931	Bought from Canadian Goodrich Company Limited approximately 5,000 pairs of Women's Zipper overshoes at 27½ c. and 25,000 pairs at 50c. Were discontinued line. Still in Fall 1933 catalogue. Clearing balance of broken sizes. Selling at 50c. See (Page 3). These overshoes sold (when a regular line) at $2.50 to $6.00 per pair. Sold previously at 59c. to $1.19.
October 5th, 1933	Bought 650 dozen full-fashioned silk hose at $4.00 per dozen plus tax and freight from Gotham Hosiery, St. Hyacinthe. Page 3 of Mid-winter Catalogue. Sell these at 50c. New line introduced by Gotham to sell at $1.35 retail and costing $10.35 per dozen proved failure, and Gotham discontinued the line and sold their stock to Army and Navy at $4.00. All sold by Army and Navy at 50c. per pair.
February 3rd, 1933	Eastern Hosiery Mills Limited offered 2,000 dozen of No. 46 cotton hose, a discontinued line, at $1.25, tax included, f.o.b. mill. Army and Navy purchased this lot and catalogued to sell at 15c. per pair (Fall and Winter, page 5.) This would previously have been sold by a jobber to the retail trade at $2.10 and sold to the public at 25c. or 20c. per pair.
February 1932	Bought from Alfred Lambert Limited, Montreal, several thousand pairs Women's shoes at flat price of $1.25 per pair, f.o.b. Montreal, represented as values of $1.75 to $3.00 at Lambert's regular jobbers' prices. These were fitted to catalogue where possible and remainder sold retail. Some went in Fall and Winter catalogue grouped, page 35, at $1.95 (better ones).
December 28th, 1932	Job lot of pyjamas, bought about 300 dozen from Grover Knitting Mills, Montreal, at $8.00 per dozen, plus tax and freight. These pyjamas did not come up to standard fitting garments and were forced to clear finally at 50c. Catalogued at 95c., Fall and Winter flyer.
October 17th, 1932	Bought from Grover Knitting Mills in October, 1932, 2,000 dozen bloomers at $2.00 and 850 men's shirt and sock sets at $6.30, plus tax and freight. Represented as being $2.40 to $3.00 line of bloomers and sets as $8.50 to $10.00 sets. Broke sets up and sold shirts and socks separately, filling in on catalogue items. Bloomers were sold at 25c. in Mid-winter catalogue, front page. Bought more bloomers from Grover in 1933 at same price.
October 1933	Job lot of shoes bought from Patricks Limited, wholesale shoe jobbers in Winnipeg, $8,500.00 worth. Paid $1.25, $1.50 and $1.75 per pair for women's shoes, men's oxfords at $2.00 and $2.25, work boots at $1.75 and $2.15. Comprised everything this jobber handled, including merchandise to $7.00 per pair. Fitted in to Catalogue Nos. and also sold in retail store.
February 1933	Bought clearing line of blankets from Canadian Factors Corporation, 1459 Alexander Street, Montreal, approximately 2,000 represented to Army and Navy as a $2.25 retail line. Sold to Army and Navy, assorted at 90c. plus freight which was about 12c. a blanket. Catalogued in Fall and Winter catalogue, page 49, at $1.69 each and remainder cleared in retail store at $1.00 per blanket. All sold.
June 19th 1933	Bought 64 dozen lumbermen's all-wool worsted socks at $6.25 per dozen from Massey Knitting Company, Montreal. Regular $8.00 to $10.00 lines. Sold on page 19 Fall and Winter catalogue at 98c.
June 24th 1933	Bought 1,326 ¾ dozen toques from Utica Company Limited, Montreal, Importers, at 75c. per dozen F.O.B. Montreal. Sold to Army and Navy as being $2.00 to $4.00 per dozen lines. Came in from Czecho-Slovakia. Catalogued Mid-Winter, page 10, at 10c. each.
September 4th 1931	Bought entire stock of Kaster Bros., Montreal, all kinds of pocket knives and other cutlery at about ¼ regular prices. Total purchase $5,400.00. Still selling these knives. See order form Fall Catalogue.
June 1933	Bought clearing line of muleskin leather work gloves from Quality Glove, Waterloo, Ontario. Bought approximately 3,000 dozen at $1.40 per dozen, plus freight and tax. Regular prices not less than $2.25. Selling in Mid-Winter catalogue, page 35, at 17c. per pair.
June 1933	Bought clearing lines of assorted merchandise manufactured by Belding Corticelli, Montreal. (Hosiery, cottons, silks, etc.) Bought at better than ⅓ off regular prices. Total purchases approximately $2,500.00. Used for "grab boxes" and, where fitted, regular merchandise. In this case, customers would get branded line better than regular goods supplied.

ARMY AND NAVY STORE, REGINA, SASKATCHEWAN

EXAMPLES OF CLEARING LINES OFFERED BY MANUFACTURERS AND JOBBERS—*Concluded.*

September 15th 1933	Bought clearing line from Canadian Converters Limited, pants and shirts at from 10% to 25% off regular prices. Also large quantities of samples at 25% off their regular selling prices.
	Used to fit in catalogue numbers where suitable and sold retail on bargain days.
December 1933......	Bought from Samuel Hart, 105 odd pants at $2.75. Regular product of factory from suits ends of good materials and buy these frequently at this price.
	Advertised Mid-Winter catalogue, page 17, at $3.98—"includes values up to $12.00".
	Very good materials in these and usual custom of factories to sell these products cheaply.
April 20th 1934......	Mercury Mills Limited without solicitation wrote as follows:—"We have 1,000 dozen No. 3920 in stock. We are thinking of discontinuing this number and making a better hose to take its place. We would be willing to sell you this stock at $4.00 net, tax extra. If 1,000 dozen is too many, we would be willing to sell part part of it to you at that price".
	Army and Navy had this line on order with Mercury at $4.75, 141 dozen to take out of 1,500 dozen order. Cancelled balance of this order and accepted above offer, 1,000 dozen at $4.00 to be delivered March 25th—August 25th.
	Will sell these this coming Summer at 50c. Now selling at 63c.
	Will use on 50c. day and $1.00 day.

Statement No. 11

ARMY AND NAVY DEPARTMENT STORE, REGINA, SASKATCHEWAN

LIST OF BANKRUPT STOCKS PURCHASED IN 1933-34 (APPROXIMATE)

March 20th, 1933—	
Archie Gordon, Lethbridge............$	7,945 73
General stock of merchandise, shoes, men's wear, dry good, etc.—Cheque to Canadian Credit Men's Trust Association—March 20, 1933.	
Bought on open bid.	
Part of goods sent to Edmonton—balance cleared in retail store.	
John Allan (Montreal)............	3,200 00
Women's wear and lingerie.	
Used to fill in on catalogue.	
March 20th, 1933—	
Paid by telegraphic transfer to Canadian Bank of Commerce, Montreal—through some channel offered to Army and Navy—Also sold in retail—Prices according to value, regardless of what was paid.	
Daytons Limited Stock—Regina—Cheque to Canadian Credit Men's Trust Assn. on March 9th, 1933............	599 29
Stock consisted of dresses, coats, hats and fixtures (safe, adding machines, shelving, etc.)	
Bought at 35c. on dollar.	
St. Lawrence Clothing Co.—Quebec............	2,100 00
This was paid by telegraphic transfer to Bank of Montreal, St. Sauveur Branch, Quebec, on Sept. 29, 1933—Direct purchase from St. Lawrence.	
Famous Cloak Co.—Regina............	7,000 00
This was paid as follows:—	
Canadian Credit Men's Trust Assn.—22nd March 1934............$ 3,000 00	
" " " " " 18th April 1934............ 3,500 00	
" " " " " 12th May 1934............ 500 00	
Stock consisted of suits, dresses, coats, fur stoles, skins, etc.—	
Advertised in Regina Leader Post—March 22nd, 1934.	
" " " " April 6th, 1934.	
Laura Lee—Montreal............	2,750 00
This was paid by telegraphic transfer to Maxwell Cummings—45 St. James St., Montreal, on Jan. 5th, 1934—$2,750.00	
Got entire $6,000.00 stock of Laura Lee.	
Stock consisted of dresses, lingerie, gloves, suits.	
Advertised in Leader Post 1st Feb., 1934—Men's work boots, pyjamas, drugs, etc.	
Advertised in Leader Post 2nd Feb. 1934—Men's pants, gloves, etc.	
Greenless Stock—Grenfell............	1,821 64
Bought through Traders Trust Co. and cheques issued, 16th April 1934 .$ 1,000 00	
" " " " " " 30th April 1934 . 821 64	
This was a general store stock—groceries, men's wear, hardware, etc., and was disposed of in Moose Jaw at a loss............	25,416 66

Statement No. 13

ARMY AND NAVY MAIL ORDER DEPARTMENT STORE, REGINA, SASK.

MEMORANDUM OF EMPLOYEES' WAGE RATES AS AT 18TH NOVEMBER, 1933

Retail Store	Full-time employees	Under $10 per week	$10 to $12 per week	$12 to $13.50 per week	$13.50 to $15 per week	$15 to $18 per week	$18 to $21 per week	$21 to $25 per week	$25 to $30 per week	$30 to $35 per week	Over $35 per week	Total
Payroll, week ending 18th Nov. 1933.	Male	1	2	....	11	4	2	6	2	....	3	31
	Female	....	....	2	16	1	....	1	....	....	....	20
	Part-time employees	Under 25c per hour	25c. to 30c per hour	Over 30c. per hour								
	Male	....	....	....	....		....	....	....	....	....	....
	Female	....	3	....	....		....	....	....	....	....	3

ARMY AND NAVY MAIL ORDER DEPARTMENT STORE, REGINA, SASK.

Memorandum of Employees' Wage Rates as at 18th November, 1933

Employees Receiving over $35 per Week—Male

Z. Lazarus—Manager of Store.......... $65 00
J. Spergel—Department Manager.......... 75 00

Mail Order	Full-time employees	Under $10 per week	$10 to $12 per week	$12 to $13.50 per week	$13.50 to $15 per week	$15 to $18 per week	$18 to $21 per week	$21 to $25 per week	$25 to $30 per week	$30 to $35 per week	Over $35 per week	Total
	Male	....	4	....	22	2	10	8	1	1	1	49
	Female	....	1	....	13	2	....	....	....	....	....	16
	Part-time employees											
	Male	1	35	....	7	7	1	....	....	....	....	51
	Female	....	25	....	....	....	....	....	....	....	....	25
												195

Employees Receiving over $35 per Week—Male

J. F. Leslie—Department Manager.......... $42 50

Office (including artists, watchman, etc.)	Full-time employees	Under $10 per week	$10 to $12 per week	$12 to $13.50 per week	$13.50 to $15 per week	$15 to $18 per week	$18 to $21 per week	$21 to $25 per week	$25 to $30 per week	$30 to $35 per week	Over $35 per week	Total
	Male	....	....	....	....	3	....	....	1	3	....	7
	Female	....	....	....	....	....	....	....	1	....	....	1
												203

Employees Receiving over $35 per Week—Male

A. W. Chadwick—General Manager.......... $140 00
J. Williams—Accountant.......... 45 00
H. B. Markell—Artist.......... 50 00

The WITNESS: Mr. Sommerville, this statement contains not only the Army and Navy Department stores but certain other small department stores which will be taken up later, but perhaps it will be convenient to file it at this time.

The CHAIRMAN: Yes. That will be exhibit No. 215.

The WITNESS: This covers the Army and Navy Department Stores, Freimans of Ottawa, Ogilvies, and the Dupuis Freres, Montreal.

The CHAIRMAN: All right.

The WITNESS: I would like, if I may, in this case, to say something to the committee about the Army and Navy Department stores.

By Mr. Sommerville:

Q. If you will just tell us what the Army and Navy Departmental Stores are, and the origin or beginning of that organization.—A. The records are entirely different to those that we have taken up in Vancouver. There is no departmentalization at all of the Army and Navy stores. I cannot tell you what the men's department or the women's dress goods department are doing as such. Their sales are all thrown into the common pot.

By the Chairman:

Q. There are three stores?—A. Yes, there are three stores. The history is that the business was formed in Vancouver about 1919 to deal in army supplies disposed of at the close of the war by the British, Canadian and American governments.

Q. That was supposed to be the reason for its existence?—A. That is the reason we have been given, and the name "Army and Navy Stores" was adopted at that time as being descriptive of that sort of business. It is interesting to note that during this period other stores with a similar name were operating in other sections of Canada but there was no connection whatsoever with the Army and Navy Stores. There is one in Toronto. From its beginning the business developed into a regular retail department store and mail order business dealing in the usual classes of merchandise.

In 1922 a mail order business was founded in Vancouver, and in 1924 competition from other mail order houses in the prairies, and the desirability of having a central shipping point, necessitated a move to Regina, where the mail order business was established and a retail store opened. That was in 1924.

In 1928 and 1929 a modern two-story basement and brick building was erected for the retail store at the corner of Eleventh Avenue and Broad Street, Regina. A warehouse was also built on Scarth Street in the same year, the total capital investment in land and buildings at 28th February, 1929, amounted to $128,491.01, of which amount $70,000 was raised by mortgage.

In 1930 a warehouse was erected on Osler Street for the mail order which had previously been conducted at Scarth Street. The cost of the Osler Street site and building was approximately $36,000 of which $23,000 was obtained by mortgage.

The business is run by three brothers, Samuel J. Cohen of Regina; Harry Cohen of Edmonton, and Joseph Cohen, Moose Jaw, and it is run as a partnership and not as an incorporated company. The business generally is that of a low priced line of merchandise designed for sale to farming and working classes, and the advertising appeal through their catalogues and papers is made to these classes of people. The company are heavy purchasers of manufacturers' clearing lines at low prices, job lots, and to a limited and lesser extent, of bankrupt stocks.

Q. Let me understand that. They are operating a retail business?—A. Yes.

Q. In Regina?—A. In Regina.

Q. And one in Edmonton?—A. Yes, and one in Vancouver.

Q. Then, in addition to that, they are operating a mail order business?—A. Yes.

Q. In all of these places?—A. Yes.

Q. Then in addition to that, they operate what is called a wholesale house?—A. Yes.

Q. And the wholesale house is known as what?—A. I have it here somewhere.

Q. Your advertising will show it?—A. Saskatchewan Wholesale Corporation, Limited.

Q. Saskatchewan Wholesale Corporation—not limited, registered?—A. Registered, yes.

Q. It is not a limited company?—A. No, registered.

Q. It has no separate premises?—A. No, no separate stock.

Q. No separate stock. Any orders that come to the wholesale business are filled out of the mail order or retail stock?—A. That is right.

Q. Although they carry on under this very high-sounding name of Saskatchewan Wholesale Corporation, Registered. Will you proceed with the statement?—A. I show you first a statement of assets and liabilities.

Q. Before we come to that statement, they issue catalogues, do they?—A. Yes, they issue catalogues, what is called the fall and winter catalogue and the mid-winter catalogue.

Q. Do they lay in stocks that are assigned to these catalogues or have numbers representative of what is shown in the catalogues?—A. No.

Q. They don't do that?—A. No, they don't do that.

Q. When they have issued their catalogues, how do they proceed to get the stuff to fill the orders that may be made on that catalogue?—A. Well, their methods are these, in brief: The catalogue items do not represent a definite line of merchandise purchased for the catalogue. They issue the catalogue, and then they purchase lines the same as their catalogue, if possible; if not, as nearly like the catalogue line as possible. In shipping the goods to their customers, they fill the catalogue line from the goods that they have, as near to those lines as possible. There is a certain amount of substitution, a good deal of substitution; and the explanation of that is that they substitute at least as good or better lines, and that they have a guarantee of money back if goods not satisfactory.

Q. That means that, having issued their catalogue, they then go out and try to buy clearance lines of merchandise in various parts of the country?—A. Not entirely clearance lines; regular lines and clearance lines.

Q. But I understood from you that they bought mostly bankrupt stocks and clearance lines?—A. I would not like to say mostly. I think their clearance lines run about 30 per cent of their sales, and bankrupt stocks another 5 per cent. I could not tell you exactly.

By Mr. Heaps:

Q. Is there any separation of the mail order business from the general business?—A. No.

Q. You don't know what per cent is mail order or what per cent is general?—A. No. The whole stock is carried for the three different classes of business, and they fill orders from it, from their general stock. They do sell, I believe, their retail goods at the same price as they sell in the mail order catalogues.

Q. But you don't know what percentage of the business is mail order and what percentage is the other?—A. No.

By Mr. Sommerville:

Q. Will you now proceed with the statement?—A. The statements I have to show are devoid of any departmental spreads and profits; and the main

evidence that I wish to give on this is that connected with the advertising. But first of all I have given in printed form a statement of the assets and liabilities, to indicate the size and importance of the concern. That is shown in the first page of the printed statement.

Q. Yes, that shows the total assets of what?—A. That shows total assets of $787,000 approximately at March 31, 1934; and a capital of $402,000, including the surplus. That is the partnership capital.

Q. Based upon the inventory, largely, which they have in their business?—A. Yes, largely on the inventory.

Q. Their total inventory was $571,000?—A. The total inventory at that date was $571,000.

Q. In the three stores, and in all departments?—A. That is right.

Q. Including mail order and wholesale?—A. That is right, $571,000. The subsequent statements I have filed I thought perhaps would be more for reference. They do not throw any particular additional light upon the consolidated statement, except that they are drawn up for a period of seven years. I have shown separately for Regina, Vancouver and for Edmonton. Accompanying each is a statement of the trading and profit and loss account for the years.

Q. Take in Regina, for instance. I see during six years the average mark-up is 34·70 per cent on the cost of the goods sold?—A. That is right.

Q. That is their average?—A. That is their average from 1927 up to March, 1934.

Q. And the total sales for the eight years were $2,060,000?—A. No, I am sorry, I think I am in error there. That is the average for the years 1933 and 1934. The sales have been running around $2,000,000 a year.

By Mr. Heaps:

Q. All the stores?—A. No, this is Regina only.

By Mr. Sommerville:

Q. Yes?—A. The peak was in 1932, that is the year ending February 28, 1932, when it was $2,261,000 in Regina. Sales last year were $2,060,000.

Q. You will furnish us with a summary of the profits such as we had in the other case?—A. Yes.

Q. Not being departmentalized, you cannot give us the mark-ups on the various items?—A. I can't give you the mark-ups on the various departments, because they have no departments as such. But for your information I have compiled this for the last seven years the mark-up on the whole business has varied from 29·33 per cent in 1928 to 34·7 per cent in 1934.

Q. A maintained mark-up?—A. Yes, a maintained mark-up. There was a peak in 1930 of 36·64 per cent, but on the whole, the trend has been somewhat upwards. Then we tried to obtain—I will not take very long, but I think perhaps it might be useful—the departmental mark-ups, so as to compare with the other concerns we have already reported on, by taking a select number of transactions in each of them. We found this, that in men's boots and shoes the mark-ups were from 82 per cent to 25 per cent; in women's boots and shoes, we found the mark-ups were from 79 per cent to 28 per cent; in men's underwear, from 61 per cent to 20 per cent; in overshoes and rubbers from 76 per cent to 24 per cent; men's underwear from 84 per cent to 25 per cent; sweaters and sweater coats from 62 per cent to 23 per cent; women's hosiery, from 74 per cent to 40 per cent; men's work shirts from 44 to 23 per cent; men's overalls, from 51 per cent to 15 per cent; men's clothing general from 71 per cent to 44 per cent; ladies ready-to-wear, from 115 per cent to 66 per cent; ladies house dresses from 45 per cent to 21 per cent. That is about all the information I can give you as to the mark-ups of merchandise. Now, if I might I would

like to show you the advertising of this business, which is perhaps the most important.

Q. That is the one that has been brought to our attention from a number of quarters, and complained of?—A. In connection with the purchase and sale of bankrupt stocks, we were informed by the retail merchants' association representative of Saskatchewan that this company was in the habit of advertising bankrupt stocks, and including in those bankrupt stocks for sale certain of their own goods taken from their own stocks. We endeavour to follow that to find out whether that practice was a common one, and we found it to be so to some limited extent in certain sales, certain sales of bankrupt stock. One in which that applied was the Famous Cloak Company.

By Mr. Young:

Q. Do you mean that bankrupt stock has some virtue that stock that had not gone into bankruptcy did not have?—A. I did not get that.

Q. When they are advertising that bankrupt stocks are being sold as bankrupt stocks is there any particular virtue attached to that kind of stuff; would it sell better?—A. I would think not, but the complaint made by the Saskatchewan merchants was that they would advertise bankrupt stock, take the bankrupt stock onto their floor, and advertise it, and then they would be enabled through that sale to dispose of certain of their own merchandise.

By Mr. Sommerville:

Q. Representing it as having been bought at 50 cents on the dollar?—A. Purchased at some price below cost. Now, I am just reporting that because it was a matter of information before the committee.

Q. These are the kind of advertisement?—A. This is just an advertisement of the Famous Cloak Company, where we did find certain of their own stock.

Q. Liquidation sale of the Famous Cloak Company?—A. Where they advertised here, "Army and Navy store buys Famous Cloak stock, 50 cents on the dollar;" and it does include some of their own purchases. Then, another kind of advertising which we found was this: They advertised a liquidation sale of the Mac and Mac Limited stock, and on that page is included a substantial list of stock from their own store.

Q. That Mac and Mac stock was a particularly high grade of stock?—A. I point that out in this way: The advertisement says "Mac and Mac" stock. It is Mac and Mac stock in the centre, but the side advertisements are not Mac and Mac.

Q. Yes?—A. And the same thing is true of the Laura Lee chain stores, where the centre of the advertisement only—are the purchases of the Laura Lee Company.

Q. And the whole thing is shown in red type as a bankrupt sale, Army and Navy? Yes?—A. Now, I would like—

The CHAIRMAN: We shall file this as exhibit 216.

Copies of advertisements filed and marked exhibit 216.

By Mr. Young:

Q. You are not in a position to tell whether these stocks were as good as the advertisements say?—A. I cannot say; I am not at all criticizing that feature of it. I am just bringing out the method of merchandising through advertising.

Mr. HEAPS: The average you gave of the average profits—the bankrupt stock had been bought and passed on to the consumers—

The WITNESS: They did come under the general merchandising.

Mr. SOMMERVILLE: Yes.

The WITNESS: Now, Mr. Johnston, who is associated with me in this investigation, has some catalogues, and I have endeavoured to find out the method of advertising the goods through these catalogues, and I ask the patience of this committee while it is being read. These are a little technical to follow, but they are rather interesting as being indicative of the practice.

Mr. F. M. JOHNSTON called and sworn.

Q. You are filing a catalogue, what is it known as?—A. It is called the mid-winter catalogue, the large one is called the fall and winter catalogue.

The CHAIRMAN: What year?

The WITNESS: The year is 1933.

The CHAIRMAN: We will file this as exhibit No. 217.

Catalogues filed and marked exhibit 217.

The WITNESS: On page 6 of the mid-winter catalogue, item T 28—may I ask Mr. Johnston to read that?

Mr. SOMMERVILLE: Yes.

Mr. JOHNSTON: On page No. 6, there is a man's shoe described as solid pearl elk, Valentine-Martin quality, finest full grain pearl elk, outside counter, box toe, solid leather soles, 13 nail rubber heel—

Mr. SOMMERVILLE: Don't go quite so fast.

Mr. JOHNSTON: The advertisement reads: Buy shoes now—leather prices are away up, we've reduced our sale prices, $4.50 value, $3.20 delivered.

The WITNESS: Now, we followed that very line at cost, through the books of the company, and found they purchased those goods for $1.99.

By Mr. Sommerville:

Q. $1.99?—A. Marked them up to $3.20 or a 60 per cent mark-up.

Q. If they were a regular $4.50 mark-up in value, that would be about 200 per cent.

The CHAIRMAN: The point there being that they represented they were selling a shoe normally valued at $4.50 for $3.20 when, as a matter of fact, they bought the article for $1.98, is that it?

The WITNESS: $1.99.

By Mr. Heaps:

Q. Were they purchased in the regular way from the factory?—A. That we could not tell because some were not, some were, some would be odd lots, remnants, lines and others—

Mr. SOMMERVILLE: Bought from the factory?

The WITNESS: Yes.

Mr. SOMMERVILLE: Not bought in bankrupt stock?

The WITNESS: No; this was bought from the factory. The next one is on page 6, item T-36.

Mr. JOHNSTON: Genuine grain leather, described as follows: These heavy duty hi-cuts are made of oil and chrome tanned grain leather—with two solid leather soles—full outside counter and backstrap—solid leather heels moccasin sewn vamp; full bellows tongue—16 inches high. You can give them the hardest wear you ever gave your boots. Dark brown, $8.50 value, clearance price, delivered, $5.98.

The WITNESS: We followed this through the books and found they were purchased in the regular way at $3.91, a 53 per cent mark-up.

Mr. SOMMERVILLE: Advertised specially at $5.98, marked up—

The WITNESS: 53 per cent.

Mr. SOMMERVILLE: If they were regular $8 value, that would be a mark-up of several hundred per cent, would it not?

Mr. YOUNG: What do they mean by "heavy duty" there?

Mr. SOMMERVILLE: For fishermen.

The WITNESS: The next is on page 7, R-68.

Mr. JOHNSTON: The advertisement reads as follows: Soft Cushion Insole. There's real comfort in this boot—and real quality as well. Soft Black Kid or fine black calf leather—with real goodyear welt leather soles—soft cushioned insoles and riveted steel shank arch support. Rubber heels. Full fitting blucher last in two wide widths, EE and EEE, $6 value, clearance price delivered $3.95.

The WITNESS: That was purchased for $2.68, and marked up to $3.95.

The CHAIRMAN: Per cent?

The WITNESS: 47 per cent.

Mr. SOMMERVILLE: The regular value was given as what?

Mr. JOHNSTON: $6.

Mr. YOUNG: Any other misrepresentation?

Mr. JOHNSTON: No.

The WITNESS: I would not like to say, Mr. Young—I am not saying it is a misrepresentation, but I do say it is misleading in a sense, for while it may be valued at $6, it was never purchased at $6. This firm never intended to sell it or put it on the market at $6. Some of these goods may have been actually worth more. I cannot tell the quality of the goods.

Mr. YOUNG: The quality of the article was as described?

The WITNESS: I do not know they were not.

Mr. YOUNG: Mr. Johnston thinks it was.

Mr. SOMMERVILLE: You are not complaining of that. The merchants' complaint was they are representing them as being of a quality that was beyond the sale price.

The WITNESS: That is the reason why Mr. Sommerville asked me to do this. There were representations from the merchants of Saskatchewan to the effect that this was going on, and we were asked to discover it. Mid-winter catalogue, page 49—

By Mr. Kennedy (Peace River):

Q. The suggestion in the advertisement is clearly that the proper retail price would be $8.50.

The WITNESS: Item R-14.

Mr. JOHNSTON: This is a lady's shoe described as follows: there will be a big demand for this, it is a spring leader at a mid-winter clearance price! Fine black calf leather—round-toe last—snappy cut-out and silver underlay trim—fully leathertex-lined—covered cuban heel, $3.75 value for $2.29.

Mr. SOMMERVILLE: $2.29 for regular $3.75.

The WITNESS: That was purchased at $1.37, or a mark-up of 67 per cent. On page 26, Item F-86.

Mr. JOHNSTON: This is a lady's shoe described as follows: So smart they add style to your outfit—such value that it's economy to buy now at our sale price! One eyelet tie style in genuine black calf—look at the stitching and

cut-out trims! Black satin bow. High covered cuban heel. To-day's $4 value —for $2.30.

The WITNESS: That was purchased at $1.42; a mark-up of 62 per cent. I am only giving you a few of these, I have a great many instances.

Mr. SOMMERVILLE: If you will just give us a few more of these.

Mr. HEAPS: Is that from a special shoe catalogue?

The WITNESS: No. I will give you other lines of goods now.

Mr. SOMMERVILLE: There are a great many more shoe items similar to these?

The CHAIRMAN: We will file this.

The WITNESS: I will be glad to file them. Perhaps it would be better if I had them typed.

Mr. SOMMERVILLE: Yes.

The WITNESS: The next item is on page 32.

Mr. SOMMERVILLE: That is from the winter catalogue of 1933.

The WITNESS: Page 32, item 68-2—$2.98.

Mr. JOHNSTON: This is a rubber boot described as follows: You will get complete protection from this new "Kaufman" number! Wear these overboots, moccasins, bushman's socks, etc.! All black gum rubber, with corregated rolled-edge soles, and heels—2 buckle height, double bellows tongue, double reinforcements, warm fleece lining. These are worth $4 by comparison with others—$2.98.

The WITNESS: These were purchased for $2.01, a mark-up of 48 per cent. There is another one on the same page which sells for $2.98; the advertising is written much the same—they say it is worth $4—it was purchased for $1.82, and that represents a mark-up of 64 per cent.

By Mr. Sommerville:

Q. And you have many more rubber lines that are similar?—A. Yes, I have many more. Then, we have one of men's underwear—page 19 of the catalogue Item A-62.

Mr. JOHNSTON: This is described as follows, this is Men's Combinations: special! silk and wool—Turnbull quality—that means a lot. Army and Navy Clearance price—that means the greatest possible value! Fine pure wool—but no bulk—lustrous silk stripe—silk trimmed collar and facing. Winners for perfect fit and comfort. A $4 value. Clearance price delivered suit $2.50 or 2 suits for $4.75.

The WITNESS: That was purchased at $1.83 and represents a mark-up of 38 per cent.

Mr. YOUNG: Did you see any of these goods?

Mr. JOHNSTON: Yes, they were a regular $2.50 value, purchased in the regular way from the regular merchant.

Mr. SOMMERVILLE: But they are represented here as being a $4.00 value.

The WITNESS: Yes.

Mr. JOHNSTON: Incidentally, they are marked $4.50 at one place, and $4.00 in another in the same ad.

Mr. SOMMERVILLE: Just a slip of the pen?

The WITNESS: In the mid-winter catalogue on page 13, item D-42.

Mr. JOHNSTON: This is a lady's combination: "Plum-line" underwear, Made by Atlantic Mills, Will provide winter warmth! Here they are—in half sleeve ankle-length style—and look at our low-sale price! Elastic rib knit—fleecy brushed surfaces. Regular $1.59, for 95 cents; or 2 suits for $1.85.

By Mr. Young:

Q. Did you see these also?—A. Yes, sir.

Q. What would the regular price be for them?—A. They were purchased for 64 cents.

By Mr. Sommerville:

Q. They were purchased for 64 cents and sold at 95 cents?—A. Sold for 95 cents, which would be a mark-up of approximately 48 to 49 per cent.

Mr. Young: And the retail price would be about—?

Mr. Johnston: 95 cents, bought in the regular way from the manufacturers.

The Witness: There is an item Sweaters, on page 20—B-38.

Mr. Johnston: Pure wool—sport style! It's a knock-out men!—In quality —warmth—value! "Sport Club style." Super-heavy all-pure wool "no sag." Jumbo knit. Big shawl collar—2 pockets. It's the best made—and now is the time to buy! Black with cardinal and white trim. $7.50 value for $3.95 delivered.

The Witness: Purchased at $2.43, or $2.51.

Mr. Sommerville: Sold at $3.95 and represented as being worth $7.50.

The Witness: That represented mark-ups of 62 per cent and 57 per cent.

By Mr. Young:

Q. Were these really all wool?

Mr. Johnston: They were all wool, but not the finest grade.

Mr. Young: And the value would be—?

Mr. Johnston: About what they were sold at. They were good value at that. They were bought direct from the maker in the regular way.

Mr. Sommerville: Yes.

The Witness: Men's overalls, page 5, D-14. There are many of those.

Mr. Johnston: Best coveralls made—8 ounce denim—wear tested; they're everything a work garment should be. Cut generously full to prevent binding when reaching or bending. Made of extra heavy 8 ounce, red-back blue denim or 8 ounce khaki denim—they're as strong as a mule. Reinforced seams. Two hip pockets, two breast pockets, two front pockets. Extension neckband and sleeve tabs. Buy now at this sale price, $3 value, sale price delivered suit $2.49.

The Witness: They were purchased at $1.88.

By Mr. Sommerville:

Q. Sold at $2.49?—A. They only carried 34 per cent mark-up.

Q. That is the smallest mark-up you have given us so far. That was the regular value of them.

Mr. Johnston: Yes, very good value at that.

The Witness: There is one item of men's clothing in the fall catalogue, page 44, item 60-3.

Mr. Johnston: This is an overcoat: "Feature value, lowest 'quality price' in 25 years. Warm and serviceable all wool, chinchilla. Strongly stitched seams. Deep generous size pockets. Smart half belted back. Fully lined with 'velvetex.' Check this coat for value, Men. It's the grandest bargain you have ever seen. Large convertible collar, Perfect tailoring and the distinctive waterproof 'velvetex' lining, guarantees warmth. Wear one of these rich Navy Chinchillas and be well dressed. Retail values to $20—delivered, each $11.85.

The Witness: Purchased at $6.90.

By Mr. Sommerville:

Q. $6.90?—A. In Montreal; sold for $11.85, 72 per cent mark-up.

Q. For the richest chinchilla ever made?

Mr. HEAPS: That was from Saskatchewan.

Mr. SOMMERVILLE: They have to be good from Saskatchewan. Just give us the advertisement from the wholesale house. That is rather illuminating. These have all been given numbers?

The WITNESS: Would it be convenient if I filed that statement at a later date with the catalogue?

(Catalogue, mid-winter, ends April 15, 1934, filed, marked exhibit 217.)

Catalogue, fall and winter, filed, marked exhibit 217 (A).

By Mr. Sommerville:

Q. This is the advertisement of the Saskatchewan Wholesale Corporation registered. First of all, this is not a limited company, is it?—A. No.

Q. It is a registered partnership?—A. Yes.

Q. And it is offering to the retail merchants a wholesale service. Will you kindly read from that some of the excerpts?—A. I think Mr. Johnston is a little more qualified to do that, he being a merchandising man.

Mr. JOHNSTON: There is one statement here "B," on the front page of this circular: "We carry a million dollar stock (centrally located in Regina, Sask., for fast service to the east or west). Our large stock eliminates 'back ordering'." At that particular time their stock was $401,000.

Mr. SOMMERVILLE: That is the stock $400,000 covered their retail stock and their mail order stock. Was there any wholesale apart from that?

Mr. JOHNSTON: No, they had no wholesale stock.

Mr. SOMMERVILLE: What else, Mr. Johnston?

Mr. JOHNSTON: This is a circular sent out. It gives the impression that there is a very large wholesale whereas it is a name only,

Mr. HEAPS: May I ask what kind of advertisement it is; is it newspaper advertisement?

Mr. JOHNSTON: It is a circular, a flyer sent out to about eight thousand customers throughout Saskatchewan and Alberta.

Mr. HEAPS: Circularizing the retail trade throughout the prairie provinces?

Mr. JOHNSTON: This is one of their statements: "Our wholesale business is secured entirely from these lists at a fraction of a cent per dollar—a new 'low' in selling costs that is passed entirely to our 6,900 dealers." This in itself is misleading as the records show that they only did $25,000 worth of business with those 6,900 customers.

Mr. SOMMERVILLE: $25,000 worth of business in a wholesale corporation with its million dollars worth of assets; and did they do it on the fraction of a cent on the dollar as intimated or was that on the 34 per cent mark-up?

Mr. JOHNSTON: No, the prices were much closer than the mail order.

Mr. SOMMERVILLE: Was their business not included in the whole business that has been represented to us here to-day by Mr. Nash?

Mr. JOHNSTON: Yes, it is included in that.

Mr. SOMMERVILLE: And the returns would come in from this fraction of a cent on the dollar and may have reduced the average and accounted for the low average we have been hearing about?

Mr. JOHNSTON: Yes. There is still another one.

Mr. SOMMERVILLE: There is one that is illuminating. They say, "There are no inside special discounts."

The WITNESS: This one was sent out last fall and is described as a "Million Dollar Harvest Sale."

Mr. SOMMERVILLE: There must have been a good harvest.

Mr. JOHNSTON: That represents half of the volume of the business for one year.

Mr. SOMMERVILLE: Half of the volume of all the business in Vancouver, Edmonton and Regina, mail order retail and wholesale; is that right?

Mr. JOHNSTON: Yes, sir.

Mr. SOMMERVILLE: This is the special million dollar sale that is being held for a few weeks?

Mr. JOHNSTON: For 45 days.

Mr. HEAPS: What about the grasshopper season?

Mr. SOMMERVILLE: That was before they saw the grasshoppers.

Mr. JOHNSTON: There is a further item that is worth considering: "$50,000 worth of merchandise given away." When asked for records of how much they had given away they said that possibly they had given away $1,000, but they said "If the orders came in we would give away $50,000."

Mr. SOMMERVILLE: But on their $2,000,000 worth of business throughout the year they had given away $1,000 worth of goods.

Mr. JOHNSTON: Probably not.

Mr. SOMMERVILLE: Those were premiums. What is their principle of merchandising in that respect? Do they give anything away?

Mr. JOHNSTON: If you turn back this catalogue it will show the gifts.

(Circulars and fliers, Saskatchewan Wholesale Corporation and Army and Navy, filed, marked exhibit 218.)

Mr. JOHNSTON: It is done on a percentage basis. They say if a person buys $25 worth of goods they will get a gift of $2.50 worth of merchandise. On $75 purchase, it is $7.50, and so on.

Mr. SOMMERVILLE: And the gift is left in the hands of the giver to choose?

Mr. JOHNSTON: No, it is catalogued. If you could see the larger catalogue. The fly leaves show the goods given away. The system is that if you send in an order for $5 they will send you five coupons. They issue a coupon for each dollar's worth of merchandise ordered from them, and inserted in the centre it describes what you can get for so many coupons.

Mr. SOMMERVILLE: I suppose it is described in the same modest language we have been listening to?

Mr. JOHNSTON: Very much the same.

Mr. SOMMERVILLE: Is that not contrary to the Trading Stamp Act? I will have to look into that.

The WITNESS: I have here an announcement that was sent out to the trade.

Mr. SOMMERVILLE: This announcement was sent out to the trade on April 5, 1934:—

ANNOUNCEMENT

> No need to place for Fall and Winter if you're one of our customers. We've bought $3,000,000 worth of staple seasonable merchandise at right cash prices for you and thousands of others.
>
> No need for you to gamble on the ups and downs of the market—we're doing it for you.

When Fall and Winter rolls around our cash with order wholesale prices will place you out of reach of competition big or small. Depend on it for your Fall requirements at bottom prices regardless of the advancing market...And you are assured of huge stocks to draw from daily if you wish.

SASKATCHEWAN WHOLESALE CORP. REG'D.
Regina, Sask.

Mr. SOMMERVILLE: Had there been any purchase of $3,000,000 of merchandise, or did they ever purchase $1,000,000 of merchandise for such purpose.

Mr. JOHNSTON: Not for any such purpose as that. They purchased it over a year possibly.

Q. Over a year in their retail business, in their various stores, but for no such purpose for any wholesale business?

Mr. JOHNSTON: That is actually 50 per cent more than a year's turnover.

Mr. SOMMERVILLE: 50 per cent more than a year's turnover, more than they sold in their biggest year.

The CHAIRMAN: In their three retail stores.

Mr. JOHNSTON: Yes.

Mr. SOMMERVILLE: Do those instances that you have given us fairly indicate the kind of advertising that is being done by this firm on the basis of the business and the assets that you have already indicated in the financial statement filed?

Mr. JOHNSTON: Oh yes, that is indicative of their whole policy, high pressure, sensational type of advertising right through, which is, in most cases, misleading.

Mr. SOMMERVILLE: Just regular advertising ballyhoo.

Mr. JOHNSTON: Yes, right through.

The WITNESS: I do not want the committee to lose sight of one thing; I do not think we need to spend more than just a few moments on it, and I think it will be enough for me to explain what it is. Attached to the printed statements is a statement of certain examples of clearing lines offered by manufacturers and jobbers. That is called statement No. 10 on the printed sheet, and behind that is a statement of bankrupt stocks purchased in 1933-34; and following that is a wage schedule in very brief form of the Regina store of the Army and Navy Department Stores.

By Mr. Sommerville:

Q. What is the total number of employees in their whole organization?—A. On that date 203.

Q. 203 in the three places?—A. Yes.

Q. I see they have not got the wholesale department listed here?—A. No, it is not listed separately.

Mr. SOMMERVILLE: That may be looked after by the office boy.

The CHAIRMAN: Now, that is all for to-day.

Mr. SOMMERVILLE: Thank you, Mr. Nash.

The CHAIRMAN: The committee will adjourn until to-morrow at 11 o'clock when we will go on with—

Mr. SOMMERVILLE: The Robert Simpson Company.

The committee adjourned at 6.05 p.m., to resume on Wednesday, 6th June, at 11 a.m.

APPENDIX

EXAMPLES OF PRICE SPREADS

WOODWARD STORES LIMITED

Example of Price Spreads—Dry Goods "C"—Ladies' Underwear—Department No. 2

Description of Goods	Example of Shipments							
	Invoice Date	Number of Units	Unit Cost	Sales Tax, Freight and Duty	Total	Initial Selling Price	Mark-up: Amount	Mark-up: Percentage of laid down cost
			$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
Combinations 651 VNLSAL	Oct. 4, 1933	6	0 97	0 02	0 99	1 95	0 96	96 97
Inf. Pure Silk Dresses—874-5	Nov. 3, 1933	58	1 00	0 07	1 07	1 95	0 88	82 24
Blouses	Oct. 30, 1933	180	1 50	0 12	1 62	2 95	1 33	82 10
Rayon Underwear—3110-12-19 34	Oct. 31, 1933	2,088	0 31	0 03	0 34	0 59	0 25	73 53
White Girdles—Nymph	Oct. 24, 1933	66	2 75	0 17	2 92	4 95	2 03	69 52
Sleepers—3329	Nov. 7, 1933	48	0 31	0 04	0 35	0 59	0 24	68 57
Dresses—6209	Oct. 31, 1933	12	1 17	0 08	1 25	1 95	0 70	56 00
Girdles—726	Oct. 27, 1933	60	0 58	0 05	0 63	0 98	0 35	55 55
Pyjamas—9049-51	Nov. 6, 1933	96	1 25	0 02	1 27	1 95	0 68	53 54
Dresses—2958	Mar. 21, 1933	120	0 75	0 07	0 82	1 25	0 43	52 44
Crepe Waists—365-358	Oct. 26, 1933	24	1 81	0 13	1 94	2 95	1 01	52 06
Slips—2448-9	Oct. 26, 1933	48	1 83	0 12	1 95	2 95	1 00	51 28
Creepers—5553 6-8 9 76	Mar. 13, 1933	275	0 60	0 05	0 65	0 98	0 33	50 77
Blouses—502-50 53 49-70	Oct. 25, 1933	28	3 75	0 22	3 97	5 95	1 98	49 87
Bathing Suits—364-24	June 9, 1933	18	1 17	0 07	1 24	1 95	0 71	49 03
B.C. A Slips	Nov. 9, 1933	120	0 40	....	0 40	0 59	0 19	47 50
Blouses—477X	Oct. 31, 1933	12	1 88	0 13	2 01	2 95	0 94	46 77
Corsets—5506	April 8, 1933	24	2 50	0 21	2 71	3 95	1 24	45 76
Teddies—250-2	Nov. 6, 1933	12	1 88	0 15	2 03	2 95	0 92	45 32
Slips—7000	Nov. 2, 1933	180	0 63	0 06	0 69	0 98	0 29	42 03
Corset Girdles—2434	Oct. 27, 1933	24	1 21	0 17	1 38	1 95	0 57	41 70
Coats—309 322	Nov. 3, 1933	7	5 75	0 58	6 33	8 95	2 62	41 39
Blouses—281-2	Oct. 26, 1933	24	1 98	0 15	2 13	2 95	0 82	38 50
Bath Robes—6197	Oct. 31, 1933	120	1 13	0 11	1 24	1 69	0 45	36 29

Average Mark-up Percentage for 1933—41.86 p.c.

WOODWARD STORES LIMITED

EXAMPLE OF PRICE SPREADS—FURNITURE—DEPARTMENT No. 3

Walnut G. L. Ex. Table No. 655	Oct. 26, 1933	1	19.06	4.39	23.45	45.00	21.55	91.89
Combination Bookcase Sat. Nut. Brown No. 1875	Nov. 2, 1933	1	38.95	5.35	44.30	79.50	35.20	79.46
Dresser No. 43-B	Feb. 21, 1933	2	33.00	6.43	39.43	66.00	26.57	67.38
Card Tables, Style No. 52	Aug. 2, 1933	2,040	0.90	....	0.90	1.50	0.60	66.67
Mattresses—Pride (4-6)	Jan. 16, 1934	2	6.00	0.31	6.31	10.50	4.19	66.40
Chair, No. 6904	Nov. 15, 1933	1	26.00	1.56	27.56	45.00	17.44	63.28
No. 562B Bed 4-6 Walnut	Jan. 15, 1934	1	8.50	0.45	8.95	14.50	5.55	62.01
Hardwood Unf. Chairs No. 640	Oct. 24, 1933	96	0.88¾	0.04¾	0.93½	1.50	0.56½	60.43
3-piece Chesterfield Set, Kant Sag	Mar. 6, 1933	1	85.00	4.33	89.33	139.50	50.17	56.16
3-piece Chesterfield Set, No. 1054	June 13, 1933	2	60.00	3.06	63.06	98.00	34.94	55.40
Lady Jean Mattress 3-3	Oct. 27, 1933	1	18.00	1.08	19.08	29.50	10.42	54.61
Royal Windsor Mattress 4-6	Jan. 5, 1934	2	12.00	0.64	12.64	19.50	6.86	54.27
No. 538 Bed 4-6	Dec. 5, 1933	1	14.00	0.73	14.73	22.50	7.77	52.75
3-piece Chesterfield Set, No. 3014	Nov. 6, 1933	2	62.00	3.16	65.16	98.00	32.84	50 40
Hairloom Chest, Walnut No. 173-42	Mar. 18, 1933	10	17.50	0.87	18.37	27.50	9.13	49 70
5-piece B. R. Suite, No. 536	Nov. 2, 1933	1	51.00	2.60	53.60	79.50	25.90	48.32
Buffet—Betula Wood—Walnut	Nov. 8, 1933	1	17.50	6.72	24.22	35.00	10.78	44.51
B.R. Suites, Walnut No. 131	Jan. 11, 1934	4	52 50	2.68	55.18	79.50	24.32	44.07
No. 1011, Couch, No. 58 Cret	Jan. 15, 1934	1	15.00	0.76	15.76	21.75	5 99	38.00
Langham, 3-piece set	Jan. 27, 1933	1	140 00	7.14	147.14	195.00	47.86	32.53
3-piece Tapestry Suite No. 501	Nov. 1, 1933	4	50.00	3.00	53.00	69.50	16.50	31.13
Tan shaded Beer Parlor Chairs No. 61X	Oct. 23, 1933	60	6.50	0.39	6.89	9.00	2.11	30 62
Bed, Spring and Mattress, 3-3	June 12, 1933	1	22.00	1.85	23.85	29.50	5.65	23.69
End Tables No. 521	Nov. 1, 1933	100	0.75	0.038	0.788	0.89	0.102	12.94

Average Mark-up Percentage for 1933—27.91%.

WOODWARD STORES LIMITED

Example of Price Spreads—Grocery—Department No. 4

Description of Goods	Example of Shipments							
	Invoice Date	Number of Units	Unit Cost	Sales Tax, Freight and Duty	Total	Initial Selling Price	Mark-up: Amount	Mark-up: Percentage of laid down cost
			$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Kalugama Tea	May 1, 1933	27,500	0.20	....	0.20	0.29	0.09	45.00
Potatoes	Dec. 30, 1933	20	0.85	....	0.85	1.15	0.30	35.30
Kellogg's Corn Flakes	Feb. 7, 1934	1,620	0.0631	....	0.0631	0 8½	0.0219	34.71
P. & G. White Naptha 100-B	Mar. 5, 1934	20,000	0.0312	....	0.0312	0.04	0.0088	28.20
Prunes	Nov. 4, 1933	5,275	0.5½	....	0.05½	0.07	0.1½	27.27
Post's Bran	May 31, 1933	11,352	0 0945	....	0.0945	0 12	0 0255	26.99
Tomato Ketchup	April 1, 1933	14,400	0.15	....	0.15	0.19	0.04	26.66
Tomato Ketchup, large	April 1, 1933	14,400	0.15	....	0.15	0 19	0 04	26.66
Crown Olive Soap 72's	Mar. 12, 1934	11,232	0.0288	0.0032	0.032	0.04	0.008	25.00
Peas No. 5, 2s	Feb. 4, 1934	600	0 0862	0 0026	0.0888	0.11	0 0212	23 88
Clam Chowder Soup 48/1s	Feb. 15, 1934	7,200	0.0666	....	0.0666	0.08	0.0133	20.00
Quaker Corn Flakes 36s	Aug. 16, 1933	16,200	0.7¼	....	0.07¼	0.8½	0.1¼	17.24
Red Plum Jam 12/4s	Jan. 6, 1933	1,080	0.25	0.0075	0.2575	0.30	0.0425	16.50
Canned Crabmeats ½s	Nov. 1, 1933	4,800	0.1458	....	0.1458	0.17	0.0242	16.50
Rinso 24s	Nov. 17, 1932	14,208	0.1809	....	0.1809	0.21	0.0291	16.09
Cocoa ½s	April 1, 1933	13,248	0.209	....	0.209	0.24	0.031	14.78
"Clover Leaf" Salmon ½s Flat	July 28, 1933	2,304	0.14	....	0.14	0.16	0.02	14.29
Pride of Ontario Honey 2½s	Oct. 10, 1933	3,000	0.2628	....	0.2628	0.30	0.0372	14.15
Crackers	Jan. 16, 1933	12,600	0.15	....	0.15	0.17	0.02	13.33
Pacific Brand Milk Talls	Mar. 27, 1933	21,600	0.0885	....	0.0885	0.10	0.115	13.00
Johnston's Fluid Beef	April 1, 1933	720	0 82	....	0 82	0.92	0.10	12.20
Fels Naphtha Soap	Feb. 24, 1933	60,000	0.0628	....	0.0628	0.07	0.0072	11.46
Nabob Coffee	Mar. 1, 1934	5,000	0.35	....	0.35	0.39	0.04	11.43
F. Gran. Sugar	Feb. 26, 1934	200	4.324	2.00	6.324	6.60	0.276	4.36

Average Mark-Up Percentage for 1933 = 22.44%.

WOODWARD STORES LIMITED

Example of Price Spreads—Boys' Clothing—Department No. 9

Boys' Black Cape Gauntlet No. 368	Sept. 15, 1933	600	0 46	0 04	0 50	0 98	0 48	96 00
Aviation Goggles—35 Black, 15 Chocolate	Aug. 5, 1933	600	0 47	0 04	0 51	0 98	0 47	92 16
Gloves, No. 186	Sept. 9, 1933	600	0 48	0 06	0 54	0 98	0 44	81 48
Knitted Sweaters	Aug. 1, 1933	1,134	0 83	....	0 83	1 49	0 66	79 52
Youths' Overcoats	July 29, 1933	50	5 50	0 60	6 10	10 95	4 85	79 51
Overcoats, 6077-8-9	Aug. 22, 1933	28	8 75	0 83	9 58	16 95	7 37	76 93

No. 200	Aug. 28, 1933	180	1 54	0 15	1 69	2 95	1 26	74 56
Sleepers, E601X	Sept. 11, 1933	120	0 52	0 05	0 57	0 98	0 41	71 93
C Suits, 1363/22/24/26	Aug. 4, 1933	300	0 81	0 07	0 88	1 49	0 61	69 32
Students' S.B.—2 longs and vest, No. 5079	Aug. 31, 1933	25	8 10	0 74	8 84	14 95	6 11	69 12
Suits, 4-piece, No. 2572	Mar. 20, 1933	61	8 75	0 73	9 48	15 95	6 47	68 25
Combinations, Style 169BC	June 22, 1933	600	0 38	0 04	0 42	0 69	0 27	64 29
Boys' Polo Shirts, Mill No. 26B	Sept. 9, 1933	360	0 50	0 06	0 56	0 89	0 33	58 93
Boys' Longs, No. 197/211	Aug. 1, 1933	360	0 96	....	0 96	1 49	0 53	55 21
Youths' Shirts, White, Blue and Green	Aug. 1, 1933	261	0 81	....	0 81	1 25	0 44	54 32
Boys' Shorts, Lot No. 3	Sept. 13, 1933	240	0 75	0 07	0 82	1 25	0 43	52 44
Gloves, No. 342	Aug. 31, 1933	1,200	0 42	0 04	0 46	0 69	0 23	50 00
Men's Serge Longs, No. 9200	Aug. 2, 1933	125	1 85	0 16	2 01	2 95	0 94	46 77
Helmets, R100	Aug. 1, 1933	670	0 65	0 03	0 68	0 98	0 30	44 12
Boys' Shorts, No. 210	Aug. 29, 1933	300	0 50	0 05	0 55	0 79	0 24	43 64
Mickey Mouse, Style 1650	Aug. 25, 1933	360	0 65	0 04	0 69	0 98	0 29	42 03
Boys' Shirts, Mill No. 1113	June 7, 1933	102	0 50	0 06	0 56	0 79	0 23	41 07
Boys' Shorts, Lot No. 2	Mar. 24, 1933	600	0 50	0 05	0 55	0 69	0 14	25 45
Child Black Coat, OK2064	Sept. 18, 1933	7	2 25	0 11	2 36	2 95	0 59	25 00

Average Mark-up Percentage for 1933—35.62 p.c.

WOODWARD STORES LIMITED

EXAMPLE OF PRICE SPREADS—MANTLES—DEPARTMENT No. 11

Assorted Coats No. 640	Oct. 31, 1933	111	1.88	0.15	2.03	5.95	3.92	193.10
Assorted Coats	Jan. 31, 1933	14	7.80	0.49	8.29	14.95	6.66	80.35
Coats No. 408	Aug. 29, 1933	4	12.83	1.21	14.04	25.00	10.96	78.06
Coats No. 177-111-103-222	Aug. 25, 1933	8	14.50	0.72	15.22	25.00	9 78	64.26
Linens and Print Dresses	Mar. 23, 1933	1,200	0.54	0.06	0.60	0.98	0.38	63.33
Dresses No. 1232-1035-7	Aug. 5, 1933	3	11.50	0.73	12.23	19.50	7.27	59.44
Skirts	July 25, 1933	60	1.17	0.06	1.23	1.95	0.72	58.53
Leatherette Coats 69/42	Aug. 22, 1933	104	2 85	0.30	3.15	4.95	1.80	57.14
Lace Dresses	Aug. 22, 1933	8	9 00	0 51	9.54	14.95	5.41	56 71
Coats No. 201-3, 424, 631-3	Aug. 29, 1933	15	14.73	1.30	16 03	25.00	8.97	55.95
Coats or Suits No. 805-8	Mar. 23, 1933	40	9.50	1.16	10.66	16.50	5.84	54.78
Taffeta No. 3445-59-70	Mar. 22, 1933	300	0.75	0.06	0.81	1.25	0.44	54.32
Suits or Coats No. 848	Aug. 24, 1933	1	39.50	2.75	42.25	65.00	22.75	53.84
Coats No. 118	Aug. 25, 1933	1	24.50	1.23	25.73	39.50	13.77	53.52
Coats No. 454-459	Aug. 23, 1933	3	23.72	2.02	25.74	39.50	13.76	53.46
Muskrat Coats A8296-9-90	Aug. 29, 1933	3	65.00	1.24	66.24	97.50	31.26	47.19
Coats No. 628-30-51-63	Aug. 24, 1933	4	28.50	2.15	30.65	45.00	14.35	46.81
Coats No. 410-27-36-38-58	Aug. 26, 1933	8	18.50	1.75	20.25	29.50	9.25	45.68
Coats No. 237	Aug. 21, 1933	5	8.00	0.89	8.89	12.95	4.06	45.67
Coats No. 855-60 62-64-67	Aug. 2, 1933	6	19.50	0.85	20.35	29.50	9.15	44.96
Girls Coats Style 624-9-51	Aug. 26, 1933	19	8.25	0.82	9.07	12.95	3.88	42.78
Coats No. 607-700	Aug. 22, 1933	3	16.00	1.57	17.57	25.00	7.43	42.29
Smocks No. 366-U	Aug. 22, 1933	92	1.25	0.13	1.38	1.95	0.57	41.30
Coats No. 1319-1748-1909	Aug. 16, 1933	8	16.75	1.52	18.27	25.00	6.73	36.84

Average Mark-Up Percentage for 1933—8.32%.

WOODWARD STORES LIMITED

Example of Price Spreads—Drugs—Department No. 13

Description of Goods	Example of Shipments							
	Invoice Date	Number of Units	Unit Cost	Sales Tax, Freight and Duty	Total	Initial Selling Price	Mark-up	
							Amount	Percentage of laid down cost
			$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Mailleraye Mineral Oil	Nov. 1, 1933	90	1.20	....	1.20	3.00	1.80	150.00
Rubbing Alcohol, 16-oz	June 29, 1933	72	0.27	....	0.27	0.65	0.38	140.74
Balmoral decorated 3-pc. sets	Nov. 10, 1933	4	4.49	....	4.49	8.95	4.46	99.33
Carica Bile Salts, 100's	Aug. 15, 1933	72	0.45	0.01	0.46	0.89	0.43	93.48
Military Sets—168R	Oct. 28, 1933	2	3.75	0.36	4.11	7.85	3.74	91.00
La Salle Cotton	Sept. 1, 1933	250	0.32	....	0.32	0.59	0.27	84.38
Empty Kit Cases No. 323	Oct. 26, 1933	100	0.43	....	0.43	0.79	0.36	83.72
Beef, Iron and Wine No. 26	Aug. 23, 1933	36	0.56	....	0.56	1.00	0.44	78.57
Itch Ointment	Nov. 30, 1933	72	0.13	0.01	0.14	0.25	0.11	78.57
Ex Lax	Jan. 2, 1934	36	0.09	....	0.09	0.15	0.06	66.66
Tabloid Thyroid, 5 gr. 100's	Oct. 13, 1933	12	0.90	0.05	0.95	1.50	0.55	57 90
Rolls Razors No. 2	Nov. 6, 1933	36	4.10	....	4 10	6.50	2.40	58.54
Urasal—Small	Dec. 26, 1933	96	0.54	0.03	0.57	0.90	0.33	57.90
Mennen's Gift Sets	Nov. 30, 1933	144	0.64	0.04	0.68	1.00	0.32	47.06
Aspirin Tablets 100's	Nov. 9, 1933	336	0.62	0.04	0.66	0.95	0.29	43.64
Wincarnis	Nov. 30, 1933	144	0.91	....	0.91	1.29	0.38	41.76
Dr. Chase's Nerve Food	Nov. 30, 1933	288	0 35	0.02	0.37	0.52	0.15	40 54
Ironized Yeast	Aug. 25, 1933	144	0.71	0.04	0.75	1.03	0.28	37.33
Minards Liniments	....	1,440	0.19	....	0.19	0.25	0.06	31.57
Kruschen Salts	Oct. 30, 1933	720	0.48	....	0.48	0.63	0.15	31.25
Castoria, Small	Sept. 1, 1933	144	0.26	....	0.26	0.34	0.08	30.77
Ointment No. 10	Dec. 12, 1933	36	0 25	0.02	0.27	0.35	0.08	29.63
B.B. Bitters	Nov. 8, 1933	144	0.73	0.05	0.78	1.00	0.22	28.20
Fruit-a-tives	Nov. 7, 1933	720	0.31	....	0.31	0.39	0.08	25.80

Average Mark-up Percentage for 1933—54.34%.

WOODWARD STORES LIMITED

Example of Price Spreads—Boots and Shoes—Department No. 16

Black Suede 3-Eyelet Ties No. 5534A	Aug. 18, 1933	30	3 65	0 24	3 89	8 50	4 61	118 51
Misses' Black Calf Oxfords No. 1111	Mar. 24, 1933	120	0 80	0 09	0 89	1 79	0 90	101 12
Brown Kid Oxford, Suede Tongue, No. 1713	Mar. 24, 1934	22	2 90	0 25	3 15	5 85	2 70	85 71
G. M. Oxfords—Sample No. 411	Jan. 31, 1934	60	1 35	0 12	1 47	2 69	1 22	82 30
Gents' Black Calf Blucher Boots No. 723	July 29, 1933	30	1 50	0 14	1 64	2 95	1 31	79 87
Women's Black Calf Tie No. 12504	Aug. 5, 1933	45	1 50	0 15	1 65	2 95	1 30	78 78
Women's Black Dong 4-eye Tie Shoes No. 4483	Aug. 9, 1933	44	1 95	0 21	2 16	3 85	1 69	78 24

Black Blucher No. 227	Aug. 8, 1933	30	0.65	0.06	0.71	1.25	0.54	76.06
Black Kid Closed Tie No. 5551	Nov. 28, 1933	89	2.00	0.19	2.19	3.85	1.66	75.80
Women's Brown Calf Oxfords No. 1617B	Jan. 19, 1934	45	2.60	0.23	2.83	4.85	2.02	71.38
Miss Pat Strap No. 4261	Aug. 21, 1933	38	1.60	0.14	1.74	2.95	1.21	69.54
Gr. Girls' Shoes No. 33755P	Mar. 20, 1933	30	1.90	0.14	2.04	3.45	1.41	69.11
Women's Special Kid Tie No. 128	Nov. 7, 1933	43	4.13	0.30	4.43	7.45	3.02	68.04
Pat Buckle Strap No. 228	Nov. 20, 1933	45	0.95	0.10	1.05	1.75	0.70	66.66
Women's All Brown Kid No. 1320	Aug. 15, 1933	30	2.70	0.23	2.93	4.85	1.92	65.53
Grey Suede One-Eye Tie No. 4507-92	Aug. 8, 1933	30	2.20	0.20	2.40	3.85	1.45	60.42
Women's So-Lite Brown Modern	Nov. 1, 1933	11	1.12	....	1.12	1.75	0.63	56.25
G. Girls' Cream and Brown Oxfords No. 483	Mar. 21, 1933	30	1.80	0.14	1.94	2.95	1.01	52.06
Women's Plain Over Vine, G.B.	Nov. 14, 1933	100	0.52	....	0.52	0.79	0.27	51.92
Women's Black Slippers No. 3359	Nov. 29, 1933	60	0.85	0.08	0.93	1.35	0.42	46.34
White Strap No. 1216E	Nov. 1, 1933	10	1.25	0.10	1.35	1.95	0.60	44.44
G. G. Brown Calf Breakers Tie No. 9219X	Nov. 14, 1933	15	3.10	0.27	3.37	4.85	1.48	43.91
Women's Brown Suede Regent Pump No. 4207¼	Sept. 30, 1933	30	1.80	0.32	2.12	2.95	0.83	39.15
Women's Indian Slippers—Black Cape	Nov. 16, 1933	772	0.80	0.05	0.85	0.95	0.10	11.76

Average Mark-up Percentage for 1933—49.73 p.c.

WOODWARD STORES LIMITED

Examples of Price Spreads—Toilet Goods—Department No. 25

Chypre Perfume No. 105	Oct. 27, 1933	9 oz.	1.78	....	1.78	3.50	1.72	96.65
Puhl Nana Perfume	Dec. 18, 1933	8 "	1.20	....	1.20	2.25	1.05	87.50
Castile Soap, 100-gr. cks.	Sept. 30, 1933	1,000	0.027	....	0.027	0.05	0.023	85.18
Moire Pouch Bags, fitted No. 309	Nov. 17, 1933	144	0.66⅔	0.04	0.70⅔	1.25	0.54⅓	76.89
Rouge, various shades	Jan. 2, 1934	48	0.29¾	0.03	0.32¾	0.55	0.22¼	67.94
H.Q.Z. Scalp Oil 2 oz.	Jan. 8, 1934	12 btls.	0.31	....	0.31	0.50	0.19	61.29
Cleanex	Jan. 2, 1934	288	0.15½	....	0.15½	0.25	0.09½	61.22
Squibb Dental Cream, Medium	Jan. 16, 1934	288	0.13¾	0.02¼	0.16	0.25	0.09	56.25
Devon Violet No. 218	Nov. 20, 1933	48	0.83⅓	....	0.83⅓	1.25	0.41⅔	50.00
Evan Williams Spec. Tunisian No. 113	Jan. 31, 1934	12	0.83⅓	....	0.83⅓	1.25	0.41⅔	50.00
Pompeian B. Powder Asstd.	Jan. 16, 1934	144	0.42½	....	0.42½	0.63	0.20½	48.23
Dubarry Face Powder No. 321	Nov. 17, 1933	27	1.28	0.21	1.49	2.20	0.71	47.65
Shaving Bowls	Oct. 12, 1933	144	0.74¾	....	0.74¾	1.10	0.35¼	47.16
Gift Sets 16/10	Nov. 25, 1933	48	0.61¼	....	0.61¼	0.90	0.28¾	46.94
Cerea, Large	Jan. 13, 1934	12	0.62	....	0.62	0.89	0.27	43.56
Ribbon Dental Cream, Large	Dec. 26, 1933	1,008	0.14⅔	....	0.14⅔	0.21	0.06⅓	43.18
Mavelous Set, No. 575	Dec. 13, 1933	12	1.33⅓	0.21⅓	1.54⅔	2.20	0.65⅓	42.24
Dubarry Cleansing Cream No. 601	Jan. 18, 1934	3	1.50	0.27	1.77	2.50	0.73	41.24
Yardley's Sets, C/20/74	Dec. 15, 1933	24	0.96	....	0.96	1.35	0.39	40.63
Pond's Vanishing Cream—Jars	Jan. 6, 1934	72	0.28	....	0.28	0.39	0.11	39.29
Hynd's Honey & Almond Cream Medium	Oct. 30, 1933	432	0.29¾	0.04¾	0.34½	0.48	0.13½	39.13
Pond's Cold Cream Large	Jan. 10, 1934	72	0.66	....	0.66	0.89	0.23	34.85
Winsome Soap	Jan. 12, 1934	288	0.06	....	0.06	0.08	0.02	33.33
Pepsodent Tooth Paste 50c. size	Nov. 22, 1933	432	0.30	0.04	0.34	0.43	0.09	26.47

Average Mark-up Percentage for 1933—45.96%.

WOODWARD STORES LIMITED

Example of Price Spreads—Men's Clothing—Department No. 28

Description of Goods	Example of Shipments						Mark-up	
	Invoice Date	Number of Units	Unit Cost	Sales Tax, Freight and Duty	Total	Initial Selling Price	Amount	Percentage of laid down cost
			$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
Men's Suits	April 26, 1933	236	7.50	0.59	8.09	12.00 15.00 18.00	3.91 6.91 9.91	48.21 85.41 122.50
Trousers, Grey Worsted No. 9978	Nov. 15, 1933	90	1.90	0.19	2.09	3.95	1.86	89.00
Men's Trench Coats	Nov. 30, 1933	33	3.50	0.44	3.94	6.95	3.01	76.40
5830X Coats, Norfolk	Dec. 23, 1933	10	3.00	0.39	3 39	5.95	2.56	75.51
Overcoats, No. 6223	Nov. 7, 1933	52	10.00	0.50	10.50	18.00	7.50	71.43
S.B. Suits, Beach, Kent, Royal, Budd	Nov. 27, 1933	61	15.50	1.07	16.57	28.00	11.43	68.98
Men's 4-piece Suits, Nos. 3017, 2878, 2386, 2212	Dec. 13, 1933	50	7.50	0.65	8.15	13.65	5.50	67.48
Boys' Longs as model 11	Nov. 21, 1933	40	2.25	0.18	2.43	3.95	1.52	62.55
Mack Coats No. 0106	Nov. 18, 1933	16	4.28	....	4.28	6.95	2.67	62.38
Lot No. 6009	Jan. 5, 1934	36	1.75	0.09	1.84	2.95	1.11	60.33
No. 3074 Overcoats	Nov. 13, 1933	15	8.50	0.93	9.43	15.00	5.57	59.07
Pants No. 020, Blue Serge	Jan. 9, 1934	161	2.40	0.12	2.52	3.95	1.43	56.75
Mole Pants M.M. 10	Nov. 20, 1933	120	1.12	0.13	1.25	1.95	0.70	56.00
Zipper Combinations No. 138Z	Mar. 6, 1934	36	2.06	0.19	2.25	3.50	1.25	55.55
Horsehide Coats No. 215	Oct. 5, 1933	6	8.00	0.36	8.36	12.95	4.59	54.90
Raglan Topcoats, Nos. 3227/28/30, 3309	Dec. 22, 1933	27	12 75	0 85	13.60	21.00	7.40	54.41
Men's Tweed Pants No. 404	Jan. 2, 1934	24	1.85	0.07	1.92	2.95	1.03	53.65
No. 4561 Bibs	Oct. 27, 1933	240	0.79	0.06	0.85	1.29	0.44	51.76
Shirts, Tan, Green, Navy No. 3417/18	Nov. 25, 1933	96	3.00	0 29	3.29	4.95	1.66	50 46
Trousers	Nov. 23, 1933	130	3.00	....	3.00	4.50	1.50	50.00
Men's Leather Coats No. 5734X	Dec. 9, 1933	4	7.00	0.72	7.72	10.95	3.23	41.81
Men's Pants No. 100/283	Nov. 24, 1933	6	2.79	....	2.79	3.95	1.16	41.60
Blue Pants No. 01	Nov. 29, 1933	420	0.90	....	0.90	1.25	0.35	38.89
Pants No. 042	Nov. 1, 1933	180	1.17	....	1.17	1.59	0.42	35.90

Average Mark-up Percentage for 1933—47.16%.

WOODWARD STORES LIMITED

Example of Price Spreads—Fruit and Vegetables—Department No. 31

Cauliflower	June 30, 1933	180	0.054	....	0.054	0 08	0.026	48.15
Potatoes, 5 tons	Nov. 14, 1933	100 sks. or 10,000 lbs.	1.00 0.01	0.025 0.00025	p. sk. 1.02½ per 10 lbs. 0.10¼	p. sk. 1.35 per 10 lbs. 0.15	0.32½ 0.04¾	31.71 46.34

Cranberries, 25 lbs. cs.	Dec. 1, 1933	1,250 "	0.16	....	0.16	0.19	0.03	18.75
						0.23	0.07	43.75
Potatoes, 15 tons	Oct. 14, 1933	300 sks.	1.05	....	p. sk. 1.05	p. sk. 1.39	0.34	32.38
		or			per	per		
		30,000 lbs.	0.0105		10 lbs. 0.105	10 lbs. 0.15	0.045	42.86
Grape Fruit	Jan. 22, 1934	21 dz.	0.52⅓	....	0.52⅓	0.69	0.16⅔	31.82
Fancy Romes	Dec. 18, 1933	150 cs.	0.90	....	0.90	1.18	0.28	31.11
Lemons, Sunkist	Jan. 18, 1934	90 dz.	0.18⅓	....	0.18⅓	0.24	0.05⅔	30.88
Peas	June 27, 1933	58 lbs.	0.06	....	for 2 lbs. 0.12	for 2 lbs. 0.15	0.03	25.00
Celery	Jan. 15, 1934	4 cs.	2.75	....	2.75	3.36	0.61	22.10
Jap Oranges	Dec. 8, 1933	500 cs.	1.25	....	1.25	1.50	0.25	20.00
Jap Oranges	Dec. 4, 1933	100 cs.	1.25	....	1.25	1.50	0.25	20.00
Tokays	Nov. 4, 1933	10 cs.	2.25	....	2.25	2.80	0.55	19.64

Average mark-up percentage for 1933—32.51%.

WOODWARD STORES LIMITED

Example of Price Spreads—Fresh Meats—Department No. 35

S. P. Hams 12/16	April 17, 1933	1,193 lb.	0.09	....	0.09	0.22	0.13	144.44
Lambs	Oct. 5, 1933	15,050 lb.	0.0462	....	0.0462	0.1075	0.0613	132.68
Beef F-¼	Mar. 1, 1933	3,024 lb.	0.05	....	0.05	0.07½	0.02½	50.00
Ces. Bulls	April 8, 1933	3,964 lb.	0.05	....	0.05	0.07	0.02	40.00
Fresh Spare Ribs	April 13, 1933	250 lb.	0.05	....	0.05	0.06 and 0.07	0.01 and 0.02	20.00 and 40.00
Broilers	April 11, 1933	210 lb.	0.18	....	0.18	0.25	0.07	38.88
Cos. Lambs	Feb. 27, 1933	8,310 lb.	0.10¼	....	0.10¼	0.14	0.03¾	36.58
Lambs	Mar. 1, 1933	1,044 lb.	0.10½	....	0.10½	0.14	0.03½	33.33
Sides Veal	Dec. 29, 1933	2,189 lb.	0.06½	....	0.06½	0.08½	0.02	30.77
Fowl	Dec. 1, 1933	201 lb.	0.13	....	0.13	0.17	0.04	30.77
Lambs	Mar. 16, 1933	1,474 lb.	0.10¾	....	0.10¾	0.14	0.03¼	30.23
Beef F-½	Jan. 8, 1934	3,459 lb.	0.07	....	0.07	0.09	0.02	28.57
Ces. Beef—Tgd	April 13, 1933	4,725 lb.	0.07	....	0.07	0.09	0.02	28.57
Premium Chicken, Over 66*	Jan. 24, 1933	990 lb.	0.22	....	0.22	0.28	0.06	27.27
Fresh Pork Loins	Jan. 15, 1934	525 lb.	0.15	....	0.15	0.19	0.04	26.66
Pork Shoulders	Jan. 5, 1934	2,971 lb.	0.09½	....	0.09½	0.12	0.02½	26.31
Lambs	Nov. 23, 1933	1,259 lb.	0.09½	....	0.09⅓	0.12	0.02⅓	26.31
Turkeys	Dec. 11, 1933	367 lb.	0.16	....	0.16	0.20	0.04	25.00
Chicken	Nov. 23, 1933	217 lb.	0.16	....	0.16	0.20	0.04	25.00
Beef	Mar. 1, 1933	2,890 lb.	0.06	....	0.06	0.07½	0.01	25.00
A-Grade Turkeys	Dec. 9, 1933	3,286 lb.	0.15½	....	0.15½	0.19	0.03½	22.58
Fowl	April 11, 1934	452 lb.	0.15	....	0.15	0.18	0.03	20.00
Turkeys	Dec. 19, 1933	524 lb.	0.17	....	0.17	0.20	0.03	17.65
Pork Shoulders	Nov. 16, 1933	1,662 lb.	0.07	....	0.07	0.08	0.01	14.28

Average Mark-Up Percentage for 1933 = 40.57%.

DAVID SPENCER LIMITED

EXAMPLES OF PRICE SPREADS—DRUGS—DEPARTMENT NO. 16

Description of Goods	Example of Shipments: Invoice Date	Number of Units	Unit Cost	Sales Tax, Freight and Duty	Total	Initial Selling Price	Mark-up: Amount	Mark-up: Percentage of laid down cost
			$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
Vacuum Bottles	Aug. 3, 1933	1,000	0.23	....	0.23	0.49	0.26	113.04
Facial Oil	Aug. 17, 1933	8-oz.	0.25	....	0.25	0.50	0.25	100.00
Absorbent Cotton	Oct. 10, 1933	500	0.21	....	0 21	0.39	0.18	85.71
Hospital Absorbent Cotton	July 31, 1933	500 lb.	0.21	....	0.21	0.39	0.18	85.71
Blue Blades	Aug. 30, 1933	27 cartons	6.40	....	6.40	10.00	3.60	56.25
Epsom Salts, No. 2 Bags	Sept. 5, 1933	543	0.06	....	0.06	0 09	0.03	50.00
Williams Shaving Cream	Sept. 5, 1933	720	0.06	....	0.06	0.09	0.03	50.00
Scottine Toilet Paper	Aug. 22, 1933	10	10.00	....	10.00	15.00	5.00	50.00
Palm Olive	Aug. 31, 1933	2,160	0.06	....	0.06	0.08	0.02	33.33
Kruschen Salts	Aug. 10, 1933	432	0.48	....	0.48	0.63	0.15	31.25
Listerine, 14-oz	Oct. 24, 1933	72	0.75	0.04	0.79	0.98	0.19	24.50
Rachel Powder	Sept. 5, 1933	864	0.07	0.01	0.08	0.09	0.01	12.50

Average Mark-Up Percentage for 1933—41.8 per cent.

DAVID SPENCER LIMITED

EXAMPLES OF PRICE SPREADS—LADIES' UNDERWEAR—DEPARTMENT NO. 20

Slips	Aug. 30, 1933	60	0.37	0.03	0.40	0.89	0.49	122.50
Vests, etc	Nov. 22, 1933	36	1.33	0.07	1.40	2.95	1.55	110.71
Samples	Aug. 9, 1933	94	1.07	0.06	1.13	2.20	1.07	94.70
C.D.C. and Lace Negligee	Oct. 3, 1933	1	6.00	0.32	6.32	11.50	5.18	81.96
Line 4450 and 4446	Aug. 28, 1933	34	1.19	0.07	1.26	2.25	0.99	78.50
Pyjamas	Sept. 14, 1933	300	0.92	0.09	1.01	1.75	0.74	73.26
Dancettes	Aug. 21, 1933	48	0.75	0.06	0.81	1.39	0.58	71.60
Dance Sets	Oct. 21, 1933	6	2.25	0.15	2.40	3.95	1.55	64.58
Gowns	Sept. 29, 1933	300	0.37	0.05	0.42	0.69	0.27	64.28
Dressing Gowns	Dec. 6, 1933	1	8.50	0.73	9.23	15.00	5.77	62.51
Vests	Sept. 13, 1933	12	1.10	0.10	1.20	1.95	0.75	62.50
Sets—assorted	Nov. 15, 1933	60	0.96	0.16	1.12	1.75	0.63	56.25

Line 1112	Sept. 6, 1933	120	0.60	0.06	0.66	1.00	0.34	51.51
Line A228	Sept. 14, 1933	11	1.81	0.20	2.01	2.95	0.94	46.72
Slips	Nov. 23, 1933	72	1.83	0.21	2.04	2.95	0.91	41.50
Slips—assorted	Dec. 10, 1933	34	1.25	0.07	1.32	1.87	0.55	41.66
Doric Slips	Sept. 18, 1933	60	1.25	0.45	1.70	1.98	0.28	16.50
Line 8808	Aug. 18, 1933	76	0.79	0.15	0.94	1.00	0.06	6.38

86332—176

Average Mark-Up Percentage for 1933—55.5 per cent.

DAVID SPENCER LIMITED

Examples of Price Spreads—Mantles—Department No. 22

Coats	Sept. 27, 1933	17	8.30	0.50	8.80	19.50	10.70	121.57
Coats	Sept. 19, 1933	100	21.00	1.05	22.05	29.00	6.95	31.52
						39.50	17.45	79.14
Coats	Sept. 12, 1933	8	24.50	1.47	25.97	45.00	19.03	73.27
Suit—Special	Sept. 12, 1933	1	15.50	1.57	17.07	29.50	12.43	72.82
Suit—Wolf	Sept. 11, 1933	1	32.50	2.65	35.15	59.50	24.35	69.27
Wolf Trd. Coat	Sept. 6, 1933	2	19.75	1.18	20.93	35.00	14.07	67.22
Suit	Aug. 19, 1933	1	33.50	2.28	35.78	59.50	23.72	66.29
Coats	Oct. 14, 1933	79	13.50	1.34	14.84	24.60	9.76	65.77
Coats, Squirrel	Aug. 19, 1933	2	39.50	2.62	42.12	69.50	27.38	65.00
Coats	Aug. 19, 1933	20	16.50	1.53	18.03	29.50	11.47	63.61
Coats	Aug. 8, 1933	1	28.50	1.97	30.47	49.50	19.03	62.45
Coat—Shadow Fox	Aug. 30, 1933	1	95.00	6.47	101.47	159.50	58.03	57.19
Coats	Oct. 18, 1933	30	9.75	1.28	11.03	16.95	5.92	53.67
Suits	Sept. 28, 1933	12	12.50	0.75	13.25	13.95	0.70	5.28
Coat	Nov. 18, 1933	1	10.00	0.60	10.60	10.95	0.35	3.30

Average Mark-Up Percentage for 1933—38.3 per cent.

DAVID SPENCER LIMITED

EXAMPLES OF PRICE SPREADS—FURNITURE—DEPARTMENT No. 29

Description of Goods	Example of Shipments							
	Invoice Date	Number of Units	Unit Cost	Sales Tax, Freight and Duty	Total	Initial Selling Price	Mark-up	
							Amount	Percentage of laid down cost
			$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
Desks	Sept. 30, 1933	10	4.75	0.70	5.45	10.00	4.55	83.48
Tea Wagons	Nov. 17, 1933	3	18.50	3.40	21.90	39.50	17.60	80.36
Chesterfield Set	Sept. 15, 1933	1	187.50	11.25	198.75	335.00	136.25	68.55
Bedroom suite	Oct. 30, 1933	1	76.00	18.50	94.50	159.00	64.50	68.25
Tea Wagon and Silverware	Nov. 9, 1933	4	18.50	0.90	19.40	32.50	13.10	67.52
Vanity Chairs	Dec. 4, 1933	6	9.75	0.58	10.33	16.90	6.57	63.60
Utility Cabinets	21 Aug., 1933	4	2.75	0.16	2.91	4.75	1.84	63.23
Walnut Tables	Aug. 31, 1933	43	1.00	0.06	1.06	1.69	0.63	59.43
Cedar Chest	June 30, 1933	1	20.50	1.23	21.73	34.50	12.77	58.76
Smokers	Dec. 9, 1933	8	3.60	0.18	3.78	5.90	2.12	56.08
Beach Umbrellas	July 20, 1933	12	2.50	0.48	2.98	4.50	1.52	51.00
Fern Stands	July 15, 1933	75	1.00	0.06	1.06	1.60	0.54	51.00
Chiffoniers	Oct. 20, 1933	32	3.00	0.18	3.18	4.75	1.57	49.37
Settees, Assorted Covers	Dec. 2, 1933	20	19.00	1.00	20.00	26.85	6.85	34.25
Bedroom Suites	Oct. 11, 1933	24	49.50	3.00	52.50	69.00	16.50	31.43
Tea Wagon	Sept. 15, 1933	20	12.00	0.60	12.60	15.00	2.40	19.05
Chesterfield	Aug. 15, 1933	1	18.75	13.22	31.97	29.50	2.47	7.73

Average Mark-up Percentage for 1933—37.1%.

DAVID SPENCER LIMITED

EXAMPLES OF PRICE SPREAD—LADIES' SHOES—DEPARTMENT No. 32

Blk. Satin 1-strap	Sept. 22, 1933	39	3.00	0.20	3.20	6.00	2.80	87.50
Blk./Green Slippers	Oct. 25, 1933	36	1.20	0.11	1.31	2.45	1.14	87.02
Brown Glazed Hiawatha	Sept. 27, 1933	30	1.00	0.10	1.10	1.95	0.85	77.27
Women's Mavoc White	Aug. 1, 1933	6	0.74	....	0.74	1.25	0.51	68.11
Brown Calf Oxfords	Nov. 9, 1933	36	2.80	0.23	3.03	5.00	1.97	65.16
Purcell Oxford	July 29, 1933	....	1.69	....	1.69	2.75	1.06	62.72
Blk. Calf Suede	Aug. 4, 1933	40	2.75	0.35	3.10	5.00	1.90	61.29

Satin Kid, Front Gore	Aug. 11, 1933	36	4.35	0.36	4.71	7.50	2.79	59.23
Kid Tie, Shoe	July 27, 1933	39	4.50	0.27	4.77	7.50	2.73	57.23
Gafton Tie, Blue Suede	Aug. 15, 1933	12	3.60	0.31	3.91	6.00	2.09	53.45
White Nurses Oxfords	Oct. 18, 1933	22	3.35	0.24	3.59	5.45	1.86	51.81
Meteor Splasho, Brown	Sept. 18, 1933	24	1.83	....	1.83	2.75	0.92	50.27
Blk. Kid Pump	Sept. 11, 1933	36	2.45	0.18	2.63	3.70	1.07	40.68
Women's Splasho Blk. Signal	Oct. 24, 1933	9	1.12	....	1.12	1.31	0.19	17.00
0361-163	Nov. 21, 1933	1	12.15	....	12.15	13.50	1.35	11.11

Average Mark-up Percentage for 1933—40.0%.

DAVID SPENCER LIMITED

Example of Price Spreads—Men's Clothing—Department No. 33

Pants	Nov. 2, 1933	16	2.40	....	2.40	4.75	2.35	97.91
Men's Bath Robes	Nov. 1, 1933	60	3.00	0.44	3.44	6.50	3.06	88.95
Miscellaneous Overcoats	Sept. 19, 1933	125	10.00	0.80	10.80	19.75	8.95	81.94
Gowns	Nov. 14, 1933	18	4.95	0.25	5.20	9.00	3.80	73.08
M/Tuxedos and Silk Vests	Dec. 8, 1933	5	16.00	0.80	16.80	27.50	10.70	63.63
Men's Suits	Sept. 19, 1933	5	11.00	0.94	11.94	19.50	7.56	63.31
Men's Interlined Gravenette Coats	Oct. 5, 1933	50	7.75	0.70	8.45	13.50	5.05	59.76
Grey Suits	Aug. 8, 1933	3	21.00	1.26	22.26	35.00	12.74	57.26
O.K. Fish Brand Medium Coat	Sept. 13, 1933	6	3.83	0.19	4.02	6.25	2.23	55.47
Coats	Nov. 18, 1933	6	7.80	0.52	8.32	12.50	4.18	50.60
Blue High Back Overalls	Aug. 8, 1933	12	1.54	0.07	1.61	2.25	0.64	39.75
Velvet Jackets	Nov. 21, 1933	6	10.00	0.75	10.75	15.00	4.25	39.53
Men's Suits—2 pants	Oct. 18, 1933	1	15.50	1.52	17.02	23.50	6.48	38.07
Men's Overall Pants	Oct. 23, 1933	72	1.04	0.06	1.10	1.50	0.40	36.36
B.D. Shirts	Oct. 18, 1933	12	3.56	....	3.56	4.50	0.94	26.40
Mack Coats	Sept. 25, 1933	8	4.25 Sales tax included	....	4.25	5.25	1.00	23.53
Rubber Jackets	Sept. 23, 1933	36	2.79	....	2.79	3.45	0.66	23.65

Average Mark-up Percentage for 1933—36.9%.

DAVID SPENCER LIMITED

Example of Price Spreads—Fresh Meats—Department No. 44

Description of Goods	Invoice Date	Number of Units	Unit Cost	Sales Tax, Freight and Duty	Total	Initial Selling Price	Mark-up: Amount	Mark-up: Percentage of laid down cost
			$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
Beef Hearts	May 11, 1934	23 lb.	0.04	....	0.04	0.08	0.04	100.00
Pork Tenderloin	May 8, 1934	10¼ lb.	0.18	....	0.18	0.30	0.12	66.67
Beef Tongues	May 11, 1934	19 lb.	0.11	....	0.11	0.18	0.07	63.63
Lamb Tongues	May 11, 1934	10 lb.	0.08	....	0.08	0.12	0.04	50.00
Jewel Shortening	May 11, 1934	60 lb.	0.09	....	0.09	0.13	0.04	44.44
Chicks	May 7, 1934	99 lb.	0.20	....	0.20	0.28	0.08	40.00
25 pieces Premium Bacon	May 7, 1934	190 lb.	0.255	....	0.255	0.35	0.095	37.25
12 pieces Shamrock Bacon	May 10, 1934	93 lb.	0.255	....	0.255	0.35	0.095	37.25
Chicks	May 7, 1934	127 lb.	0.22	....	0.22	0.30	0.08	36.36
Spare Ribs	May 8, 1934	10½ lb.	0.08	....	0.08	0.10	0.02	25.00
100 S.M. Cottage Rolls	May 5, 1934	633 lb.	0.16	....	0.16	0.20	0.04	25.00
25 Shoulder Pork	May 5, 1934	323 lb.	0.11	....	0.11	0.10	0.01	9.09
			0.11	....	0.11	0.13	0.02	18.18

Average Mark-up Percentage for 1933—30.4 p.c.

DAVID SPENCER LIMITED

Examples of Price Spreads—Boys' Clothing—Department No. 50

Description of Goods	Invoice Date	Number of Units	Unit Cost	Sales Tax, Freight and Duty	Total	Initial Selling Price	Mark-up: Amount	Mark-up: Percentage of laid down cost
Youths' Coats, Job	Aug. 3, 1933	75	4.50	0.34	4.84	8.95	4.11	84.92
						10.95	6.11	126.24
Boys' Shorts	Oct. 24, 1933	24	1 00	....	1.00	2 20	1.20	120 00
Manny	Oct. 10, 1933	6	6.25	0.84	7.09	15.45	8.36	117.91
Boys' Trench Coats	Aug. 16, 1933	13	2.65	0.15	2.80	5.95	3.15	112.50
Boys' Overcoats	Aug. 10, 1933	95	3 75	0.22	3.97	7.95	3.98	100.25
Juniors' Overcoats	Sept. 13, 1933	50	6.50	0.61	7.11	13.95	6.84	96.20
Juvenile Coats	July 25, 1933	50	2.40	0.12	2.52	4 50	1.98	78.57
Peel, 3-pcs. suit	Nov. 1, 1933	1	5.75	0.62	6.37	10.95	4.58	71.90
Coats	Aug. 28, 1933	145	3.75	0.38	4.13	6.95	2.82	68.28
Corduroy Breeches	Nov. 28, 1933	18	1.00	0.16	1.16	1.95	0.79	68.10

J. A. Coats	Dec. 16, 1933	11	4.50	0.27	4.77	7.95	3.18	66.66
Cowboy Suits	Oct. 14, 1933	120	1.30	0.08	1.38	2.25	0.87	63.04
King 3-pcs. suits	Aug. 5, 1933	14	5.25	0.31	5.56	8.95	3.39	60.97
Boys' Suits	Aug. 15, 1933	36	3.50	0.21	3.71	5.95	2.24	60.38
Junior Coats	Oct. 20, 1933	50	4.50	0.50	5.00	7.95	2.95	59.00
Longs	Aug. 23, 1933	36	1.65	0.25	1.90	2.95	1.05	55.26
Straights	Sept. 21, 1933	114	1.15	.....	1.15	1.75	0.60	52.18
Boys' Bloomers	Dec. 18, 1933	24	1.12	0.17	1.29	1.95	0.66	51.16
Boys' Sheepskin Coats	Aug. 18, 1933	57	3.00	0.37	3.37	4.95	1.58	46.88
Assorted Jr. Boys' Overcoats	Oct. 31, 1933	50	3.15	0.34	3.49	4.95	1.46	41.83
Boys' Jr. Coats	Dec. 13, 1933	5	2.88	.....	2.88	3.95	1.07	37.15
Boys' Yellow Buttoned Varsity	Sept. 26, 1933	8	2.81	0.16	2.97	3.95	0.98	33.00
Youths' Bathrobes	Nov. 6, 1933	60	1.62	0.15	1.77	1.95	0.18	10.17
Overalls	Sept. 13, 1933	180	0.60	0.33	0.93	0.98	0.05	5.37

Average Mark-up Percentage for 1933—47.5 p.c.

DAVID SPENCER LIMITED

Examples of Price Spreads—Groceries—Department No. 63

$2\frac{1}{2}$'s Tomatoes std. O.P.	Feb. 5, 1934	600	0.083	.....	0.083	0.13	0.047	56.62
Glazed Cherries	Mar. 5, 1934	90	0.265	.....	0.265	0.40	0.135	50.94
$10\frac{1}{2}$ ozs. Pea Soup, R.C.	April 6, 1934	96	(Tax inc.) 0.054	.....	0.054	0.08	0.026	48.14
Oxo Cubes, 4s	Feb. 2, 1934	216	0.076	.....	0.076	0.11	0.034	44.73
Puffed Wheat	Feb. 2, 1934	36	0.09	.....	0.09	0.13	0.04	44.44
Sardines, K.O.	Feb. 2, 1934	300	0.096	.....	0.096	0.13	0.034	35.42
Coarse Oatmeal 20/5	Jan. 11, 1934	4	0.217	.....	0.217	0.29	0.073	33.64
Molasses, Aunt Dinah	Feb. 1, 1934	36	0.114	.....	0.114	0.15	0.036	31.58
Apricots	Feb. 2, 1934	96	0.146	.....	0.146	0.19	0.044	30.14
Orange Pekoe Tea, $\frac{1}{2}$'s	Feb. 1, 1934	60	0.225	.....	0.225	0.29	0.065	28.88
Coffee—Malkin's Best	Feb. 20, 1934	60	0.36	.....	0.36	0.45	0.09	25.00
$10\frac{1}{2}$ oz. Vegetable Soup, R.C.	Mar. 23, 1934	720	(Tax inc.) 0.066	.....	0.066	0.08	0.014	21.21
Chocolate Eclairs	Jan. 2, 1934	12	0.24	.....	0.24	0.29	0.05	20.83
Soap—Sunlight 4	Feb. 2, 1934	192	0.163	.....	0.163	0.19	0.027	16.56
Coffee—1 lb.	Feb. 2, 1934	100	0.34	.....	0.34	0.39	0.05	14.70
Purity Flour 4/24	Jan. 2, 1934	4	0.75	.....	0.75	0.85	0.10	13.33
Cream Crackers	Jan. 4, 1934	72	0.16	.....	0.16	0.18	0.02	12.50
Corn Flakes—Packages	Feb. 2, 1934	36	0.08	.....	0.08	0.09	0.01	12.50
Purity Iodized Salt 24/2	Dec. 30, 1933	24	(Tax inc.) .09	.....	0.09	0.10	0.01	11.11
Baking Powder, Malkin's Best	Feb. 15, 1934	12	0.65	.....	0.65	0.71	0.06	9.23
Sugar—100 lbs.	Feb. 2, 1934	40	6.60	.....	6.60	6.70	0.10	0.015

Average Mark-up Percentage for 1933—14.9 p.c.

DAVID SPENCER LIMITED

EXAMPLES OF PRICE SPREADS—MEN'S SHOES—DEPARTMENT NO. 69

Description of Goods	Example of Shipments							
	Invoice Date	Number of Units	Unit Cost	Sales Tax, Freight and Duty	Total	Initial Selling Price	Mark-up Amount	Mark-up Percentage of laid down cost
			$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	
Brown Dong. Romeo, M.S.	Aug. 3, 1933	60	2.10	0.16	2.26	3.95	1.69	74.78
Green Slippers	Aug. 12, 1933	30	1.35	0.06	1.41	2.45	1.04	73.76
Blk. C. F. Blu	April 4, 1933	30	2.70	0.23	2.93	5.00	2.07	70.89
Men's Blk. Oil Gs. Blue	Aug. 7, 1933	30	2.20	0.13	2.33	3.95	1.62	69.53
Blk. Kid Bals	Sept. 2, 1933	30	3.05	0.21	3.26	5.50	2.24	68.71
Blue Felt Insoks	Oct. 31, 1933	120	0.08	0.01	0.09	0.15	0.06	66.66
Blk. Russian Cf. Blue Oxford	Aug. 22, 1933	20	5.20	0.40	5.60	9.00	3.40	60.71
Men's Patent Oxfords	Dec. 21, 1933	6	3.11	....	3.11	5.00	1.89	60.77
Sample Shoes	Aug. 16, 1933	53	2 50	....	2.50	3.99	1.49	59.60
P.R.A. Blk. Kid Blu	Oct. 23, 1933	8	4.65	0.37	5.02	8.00	2.98	59.36
Blk. Kid Blu	Aug. 12, 1933	30	3 50	0.22	3.72	5.85	2.13	57.26
Foot Easers	Oct. 31, 1933	4	2.23	....	2.23	3.50	1.27	56.95
Brown Calf and Pebler Oxfords	Aug. 18, 1933	24	2 25	....	2.25	3.49	1.24	55.11
Domo. Imp. Black Kid	July 13, 1933	30	2.35	0.30	2.65	4.00	1.35	50.94
Black Men's Soft Toe	Oct. 20, 1933	30	2 35	0.32	2.67	3.95	1.28	47.94
Men's G. M.Cf. Blue Oxfords	Aug. 31, 1933	30	2.40	0.27	2.67	3.90	1.23	46.07
Canso Hip	Sept. 7, 1933	12	3.74	....	3.74	5.45	1.71	45.99
Men's Habitant Cleated	Sept. 5, 1933	15	4.00	....	4.00	5.75	1.75	43.75
Men's Basketball Bal	Nov. 20, 1933	3	2.08	....	2.08	2.95	0.87	41.82
Blk. Kid Oxfords	July 24, 1933	30	3.75	0.35	4.10	7.00	2.90	41.43
Side Bal. Ox	Nov. 27, 1933	30	2.05	0.30	2.35	2.99	0.64	27.23

Average Mark-up Percentage for 1933—46.8%.

HOUSE OF COMMONS, ROOM 368,

June 6, 1934.

The special committee appointed to inquire into price spreads and mass buying met at 11 a.m., Hon. H. H. Stevens presiding.

Mr. Norman K. Sommerville, K.C., of Toronto and Mr. W. W. Parry of Toronto, appeared as counsel for the committee.

The CHAIRMAN: The minutes of yesterday's meeting record the hearing of witnesses and the filing of certain exhibits. I declare the minutes approved.

Mr. A. E. NASH recalled.

By Mr. Sommerville:

Q. Mr. Nash, you have some information in answer to Mr. Heap's inquiry of yesterday?—A. Yes. I shall deal with Woodward's first.

Q. Will you be good enough to put that information on the record?—A. In connection with Woodward's, I made a statement yesterday to Mr. Heaps that the staff was granted one week's holiday with full pay, and Mr. Heaps asked me to confirm that. The regular staff is granted one week's holiday with full pay. There is a sick benefit fund maintained by employees by monthly contributions. This fund is not contributed to by the company. All employees are allowed a discount of 10 per cent on general purchases, but no discount on food purchases. The employees' cafeteria is run by the company, sells meals at cost to the employees. In connection with the bonus plan, there is a departmental bonus group. Departmental group bonuses are distributed based on the average cost of selling over a period of years. Any improvement or saving in expense over the quotas established in a particular department, is distributed among the employees of that department. The working hours are 47 per week. Employees are paid a minimum wage of $12.75 for these 47 hours, although regulations of the minimum wage board provide for a 48 hour week. There have been reductions in wages, but no reduction in British Columbia minimum wage since January, 1928.

Q. You have similar information with respect to the David Spencer Company?—A. In connection with the David Spencer Company the regular staff is granted one week's holiday with full pay. A sick benefit fund is maintained by employees by monthly contributions. This fund is not contributed to by the company. All employees are allowed a discount of 12½ per cent on general merchandise, and 2½ per cent on food purchases. A cafeteria is run by the company, which sells meals at cost to the employees. All employees of the David Spencer Company are assessed 5 cents per week for recreation grounds which the company provides. The working hours are 44 hours per week, although the regulations of the minimum wage board provide for a 48 hour week. Employees are paid a minimum wage of $12.75 for these 44 hours.

By Mr. Kennedy (Winnipeg):

Q. Are these contributions to the sick benefit fund by employees compulsory or voluntary?—A. I imagine compulsory from the tone of the information I have. It does not state definitely on the information I got from my agents yesterday.

Q. You are under the impression that the employees are required to contribute to the fund; is that right?—A. I cannot state that definitely.

By Mr. Sommerville:

Q. You were asked also to give us a summary of the surplus accounts of David Spencer Limited, similar to that we had for Woodward's.—A. Would you care to have this filed with the statements of the respective companies?

Q. They are being incorporated in the record. You have taken the surplus account of David Spencer Limited for the last 10 years?—A. Yes.

Q. And the balance of surplus on the 31st January, 1934, was $4,135,788.02?—A. Yes.

Q. To which have been added profits from operations before appropriations for reserves, $2,823,403.21; proceeds of life insurance policy have been added to that, consisting of $135,650.40, and sundry gains (sales of property) $83,081.56, or a total addition during the period of $3,042,135.17, which makes a total surplus at the end of 1933 of $7,177,923.19?—A. That was not at the end of 1933.

Q. That is the amount?—A. The amount.

Q. The amount of additions during that period?—A. Yes.

Q. The total?—A. Yes, the total during that period.

Q. Then, that has been disposed of in the following manner?—A. Yes.

Q. Dividends and drawings paid, $306,512.58; surplus capitalized in 1932, $5,217,046.68; provincial taxes, $17,553.79; loss on investments, $448.65; life insurance premiums paid, $422,315.32, and depreciation reserves which were capitalized in 1932, $1,890,281?—A. Yes.

Q. Of which $1,426,824.09 were set up— —A. Set up for profits.

Q. That is the way— —A. That is the disposal of the surplus of the profits for the year. To make it convenient, we will file that in connection with every company, if you like to have it added to the statement.

Q. It is on the record as such?—A. Then I was asked to file as an exhibit extracts from the catalogues and advertising of the Army and Navy store, with reference to the prices at which the goods were purchased, and the mark-up in the Army and Navy stores, and I filed it as exhibit 217A.

Extracts from Catalogues and advertising of the Army and Navy store, filed and marked exhibit 217A.

Q. This exhibit gives the names of the firms supplying the goods in the catalogue?—A. Yes.

Q. A description of the goods?—A. Yes.

Q. The amount of the order, the date of the invoice, the unit cost of the invoice, the sales tax, added to unit cost laid down, the initial selling price, the amount of the mark-up and the percentage of same?—A. Yes.

Q. The catalogue reference number, the advertising remarks, and the management remarks?—A. Yes.

Q. That information is available for both the mail order and the retail store, and also for the wholesale business.

Q. Dealing with both the catalogues and the advertising material that has been filed as an exhibit?—A. Yes.

Witness retired.

George Adamson called and sworn.

By Mr. Sommerville:

Q. Mr. Adamson, you are a chartered accountant and auditor?—A. Yes.

Q. Member of the firm of Clarkson, Gordon, Dilworth and Company?—A. Yes.

Q. And as such you had to do with the examination and audit of the affairs of the Robert Simpson and Company, Limited?—A. Yes.

Q. And the group of companies associated with it?—A. Yes.

Q. And as such you have made a report upon that to the committee?—A. Yes.

Q. Is this the report?—A. A file of statements in connection with the investigation.

Q. These are the file of statements in connection with the Robert Simpson Company and its subsidiary companies?—A. And its subsidiary companies.

Q. That will be exhibit 219?—A. This is an extra copy for the Minister.

File of statements filed and marked exhibit 219.

Q. Have you any of the key statements?—A. They have not come from the printers' yet.

Q. We expected to have them at this time, and as soon as they come, they will be distributed. How many of those copies have you?—A. I have two more of these statements. They are just the statements; this is the memorandum.

Q. A memorandum of what?—A. In connection with the growth and organization of the business.

Q. Now will you be good enough to hand to the reporter a copy of this, so it will be incorporated into the record at this time, after which it will be read by you?—A. Yes.

SIMPSONS LIMITED AND CONSTITUENT COMPANIES

MEMORANDUM RE ORGANIZATION AND GROWTH OF BUSINESS

Organization

On Statement No. 1 is shown in chart form the Companies at present comprising the Simpson Organization; indicating their relationship and functions. The Robert Simpson Company Limited operates the Toronto Store and owns the entire capital of—

The Robert Simpson Eastern Limited
The Robert Simpson Western Limited
The Robert Simpson Montreal Limited
Keens Manufacturing Co. Limited
Thompson Manufacturing Co. Limited
Central Indoor Parking Garage Limited
The Robert Simpson Company (London) Limited (London, England)
The Robert Simpson Drug Co. Limited
Les Representants de Robert Simpson S.A. (Paris, France)

The capital of each of the last four of the above Companies is nominal and in the accounts of The Robert Simpson Company Limited their operations are treated as departments of that Company rather than as separate organizations.

Simpsons Limited (1925) was incorporated in 1925 to acquire the common stock of The Robert Simpson Company Limited which up until that time was the controlling Company of the Simpson organization. Simpsons Limited (1929) was incorporated in 1929 and acquired the assets of Simpsons Limited (1925) which was wound up at that time. Simpsons Limited (1929) now owns the common shares of The Robert Simpson Company Limited and certain of the lands and buildings. These changes in corporate and capital structure will be dealt with later.

On Statement No. 2 is shown the details of the incorporation of the various companies, their capital, bonded indebtedness and the names of the directors, etc.

Growth of Business

On Statement No. 3 is shown a chronological table indicating the extensions of the business from 1872 to the present time.

Toronto Store

The Robert Simpson Company Limited had its origin in a store founded by the late Mr. Robert Simpson in 1872. This store was located on Yonge Street, just south of Queen Street and during the next quarter century it expanded until it occupied a relatively large building at the corner of Queen and Yonge Streets.

The business of Robert Simpson was not incorporated until 1896 when The Robert Simpson Company Limited was incorporated with an authorized capital of $500,000. Two years later in 1898 the 1,375 issued shares of this Company were purchased by the late Mr. H. H. Fudger, Sir Joseph Flavelle and Mr. A. E. Ames.

On Statement No. 4 is submitted a plan of the area now occupied by the Toronto Store and from it the expansion of the past forty years can be judged and more particularly the extensions of 1900, 1908, 1912, 1923 and 1929 can be followed.

Mail Order

The mail order business was commenced as a store service. The first catalogue was issued in 1894 and by 1914 the business had grown large enough to require a separate building for it and it was therefore transferred to a warehouse on Front Street. In 1916 it was moved to the new Mutual Street Building which was built primarily for that purpose.

In 1915 The Robert Simpson Western Limited was incorporated to handle the mail order business in Western Canada and a warehouse was erected in Regina. In 1919 The Robert Simpson Eastern Limited was incorporated and a building erected in Halifax to take care of the mail order business in the Maritime Provinces. Retail departments are operated by the various mail order branches at Toronto, Regina and Halifax. In 1925 the Toronto Mail Order Division, formerly owned by the Toronto Store, was transferred to The Robert Simpson Eastern Limited.

Montreal Store

In 1904 The Robert Simpson Company Limited secured control of The John Murphy Company Limited which operated a department store in Montreal. In 1929 the name of this Company was changed to "The Robert Simpson Montreal Limited" and in 1930 a new building was erected.

Factories

The largest factory of the Simpson organization is that known as Keens Manufacturing Company Limited, which manufactures ladies' dresses for the Mail Order Division. This Company was purchased by The Robert Simpson Company Limited in 1913 and is situated in the Mutual Street Building. All the other factories and workrooms are comparatively small and most of them are operated as departments of the Toronto Store.

Points at which Business is Conducted

On Statement No. 5 is shown the centres at which business is conducted by the various companies of the organization. The locations of the various order offices and points from which agents transact business are shown on this statement. The business obtained by these order offices and agents represents only a small portion of the total volume.

Comparative Statement of Annual Sales 1915 to 1933 inclusive

The growth of the business in the last twenty years is indicated on the comparative statement of sales from 1914 to 1933 inclusive (Statement No. 6). This statement shows the sales by divisions and in total. In 1914, the total sales were approximately $14,000,000 but by 1929 they had increased to $48,000,000—the total volume in 1933 was $37,500,000. The mail order sales (which are included in the total volume referred to above) reached a peak of $14,300,000 in 1920 and in the subsequent eight years fluctuated between $11,500,000 and $13,700,000. Since 1929 the mail order sales volume has been decreasing more rapidly than that of the retail stores and in 1933 was $7,000,000. The retail departments of the Mail Order Companies, however, show substantial growth from year to year, having increased from $1,154,000 in 1929 to $2,042,000 in 1933. The Montreal business has also been steadily increasing and in the past year sales were approximately $5,000,000.

Comparison of Number of Employees

Records of the numbers of employees of the organization are not available prior to 1926. The following is a summary of the average number of persons employed by the whole organization in the month of October during each of the past eight years along with the comparable figures for the Toronto units:—

—	Total employees	Employees of Toronto units
1926	4,967	3,897
1927	5,228	4,071
1928	5,880	4,602
1929	6,700	5,464
1930	6,433	5,129
1931	6,365	4,947
1932	6,120	4,662
1933	6,228	4,650

Merchandise Transactions

A comparison of the merchandise transactions and the average value of these transactions for the whole selling organization (exclusive of Toronto restaurant transactions) for the past six years (the only period for which these records are available) is as follows:—

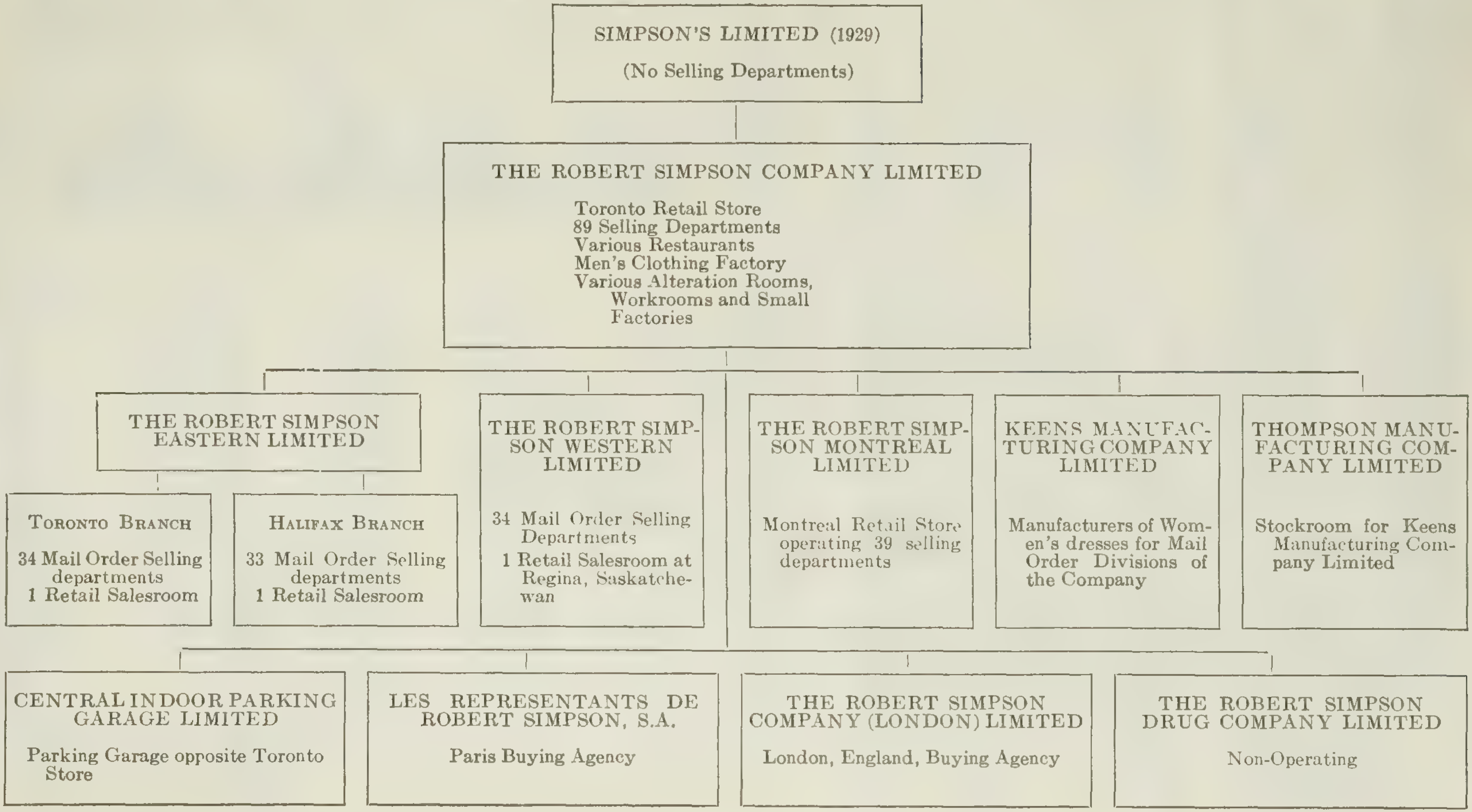
—	Merchandise trans-actions	Average transaction value
		$ cts.
1928 (52 weeks)	18,515,967	2 60
1929 "	20,661,965	2 54
1930 "	19,608,179	2 61
1931 (53 weeks)	20,855,906	2 34
1932 (48 weeks)	19,924,541	1 94
1933 (52 weeks)	22,922,931	1 80

While the sales volume in dollars is not as great as two or three years ago the number of merchandise transactions shows an increase. The average transaction value has been reduced from $2.60 in 1928 to $1.80 in 1933.

Statement No. 1

SIMPSON'S LIMITED AND CONSTITUENT COMPANIES

ORGANIZATION CHART



Statement No. 3

SIMPSONS LIMITED AND CONSTITUENT COMPANIES

Chronological Table Showing Growth of the Business

(Note.—Additions to Toronto Store shown on plan attached—Statement No. 4)

1872 The late Robert Simpson commenced business on Yonge Street, Toronto.
1893 Fire destroyed store buildings.
1894 First mail order catalogue issued.
1895 New six-story building on corner of Queen and Yonge Streets completed.
1896 The Robert Simpson Company Limited incorporated by the late Robert Simpson.
1898 Company acquired by the late Mr. H. H. Fudger, Sir Joseph Flavelle and Mr. A. E. Ames.
1900 Yonge and Richmond extension to Toronto Store completed.
1904 Department store operated by the John Murphy Company of Montreal purchased; company incorporated as The John Murphy Company Limited (name changed to The Robert Simpson Montreal Limited in 1929).
1908 "Knox" extension to Toronto store completed.
1912 "Wanless" extension to Toronto store completed.
1913 Capital Stock acquired of Keens Manufacturing Company Limited, a factory manufacturing whitewear, ladies' dresses, etc.
1914 Mail Order Division moved to warehouse on Front Street.
1915 The Robert Simpson Western Limited incorporated and in 1916 commenced Mail Order business in Western Canada, with warehouse at Regina.
1916 Mutual Street Building erected primarily for the use of the Toronto Mail Order division of the Robert Simpson Company Limited.
1919 The Robert Simpson Eastern Limited incorporated and commenced mail order business in the Maritime Provinces with a warehouse at Halifax.
1923 James Street extension to Toronto store completed.
1925 Simpsons Limited (1925) organized and acquired all the common stock of The Robert Simpson Company Limited. Parking Garage on Richmond Street, opposite store leased.
1929 Bay Street extension to Toronto Store completed.
Simpsons Limited (1929) organized and acquired assets of Simpsons Limited (1925) and certain of the lands and buildings of the subsidiary companies.
1930 Parking Garage on Richmond Street purchased.
1931 New Montreal Store completed; extension to Mutual Street Building completed.

Statement No 5

THE ROBERT SIMPSON COMPANY LIMITED AND SUBSIDIARY COMPANIES

Statement Showing Points at which Business is Conducted

—	Retail Stores	Order Offices*	Merchant Agents	Mail Order Stores
Ontario..........	Toronto.........	New Toronto, Oshawa, Brampton (Suburban Offices)	Ansonville	Toronto
			Brockville	
			Belleville	
		Barrie	Brampton	
		Brockville	Brantford	
		Hamilton	Burlington	
		Kirkland Lake	Chatham	
		Owen Sound	Cochrane	
		Peterborough	Englehart	
		Rouyn	Haileybury	
		Timmins	Ingersoll	
		Trenton	Kapuskasing	
			Kingston	
			Kitchener	
			New Toronto	
			Oshawa	
			Port Hope	
			St. Catharines	
			St. Thomas	
			Smooth Rock Falls	
			Sudbury	
			Tweed	
			Whitby	
Quebec..........	Montreal			
Saskatchewan...	Regina**........	....	Avonlea	Regina
			Estevan	
			Millville	
			Moose Jaw	
			North Battleford	
			Prince Albert	
			Saskatoon	
			Swift Current	
			Weyburn	
			Wynyard	
			Yorkton	
Nova Scotia.....	Halifax**.......	....	....	Halifax

*Agents also work from certain of these Order Offices.
**Small retail departments in connection with the Mail Order Departments.

Statement No. 6.

THE ROBERT SIMPSON COMPANY LIMITED AND SUBSIDIARY COMPANIES

COMPARATIVE STATEMENT OF SALES, BY UNITS, FOR TWENTY YEARS—1914 TO 1933 INCLUSIVE

—	Retail Stores				Mail Order Divisions				Total Sales
	Toronto, Store, The Robert Simpson Company Limited	Montreal Store, The Robert Simpson Montreal Limited	Retail Departments of Mail Order Divisions (in total)	Total Retail Stores (including Retail Divisions of Mail Order	Toronto, The Robert Simpson Eastern Limited	Regina, The Robert Simpson Western Limited	Halifax, The Robert Simpson Eastern Limited	Total Mail Order	
	$	$	$	$	$	$	$	$	$
52 weeks ended 27 Jan. 1915...	8,253,523	1,280,612	....	9,534,135	4,547,316	....	....	4,547,316	14,081,451
53 " " 2 Feb. 1916	8,882,867	1,348,291	....	10,231,158	6,134,480	....	....	6,134,480	16,365,638
52 " " 31 Jan. 1917...	10,745,186	1,405,481	....	12,150,667	5,397,199	3,430,526	....	8,827,725	20,978,392
52 " " 30 Jan. 1918...	12,038,452	1,457,392	....	13,495,844	5,686,890	6,396,138	....	12,083,028	25,578,872
52 " " 29 Jan. 1919...	13,731,428	1,615,299	....	15,346,727	6,295,575	6,341,035	....	12,636,610	27,983,337
52 " " 28 Jan. 1920...	18,356,282	1,933,720	....	20,290,002	6,495,464	6,510,752	148,547	13,154,763	33,444,765
52 " " 2 Feb. 1921...	21,316,184	2,272,655	....	23,588,839	5,292,082	6,745,430	2,284,146	14,321,658	37,910,497
52 " " 1 Feb. 1922	20,192,826	2,021,769	....	22,214,595	4,347,985	5,575,848	1,643,053	11,566,886	33,781,481
52 " " 31 Jan. 1923...	19,889,764	1,854,647	261,435	22,005,844	4,204,571	5,671,055	1,691,227	11,566,853	33,572,697
52 " " 30 Jan. 1924...	20,382,795	2,083,835	437,792	22,904,422	4,748,990	5,624,134	1,863,160	12,236,284	35,140,706
53 " " 4 Feb. 1925	22,184,397	2,217,991	789,334	25,191,722	4,985,926	5,341,826	1,858,899	12,186,651	37,378,373
52 " " 3 Feb. 1926..	23,471,204	2,385,190	898,831	26,755,225	4,937,498	5,658,474	1,815,933	12,411,905	39,167,130
52 " " 2 Feb. 1927	24,021,575	2,823,278	1,007,599	27,852,452	5,300,871	6,300,025	1,863,477	13,464,373	41,316,825
52 " " 1 Feb. 1928.	25,152,589	2,830,594	1,064,576	29,047,759	5,231,203	6,405,194	1,845,072	13,481,469	42,529,228
52 " " 30 Jan. 1929...	27,084,993	2,913,679	1,138,644	31,137,316	5,532,454	6,264,480	1,871,874	13,668,808	44,806,124
52 " " 29 Jan. 1930...	31,290,698	3,118,329	1,154,086	35,563,113	5,208,957	5,501,236	1,923,061	12,633,224	48,196,337
52 " " 28 Jan. 1931...	30,917,406	3,724,813	1,193,307	35,835,526	4,626,829	4,566,422	1,883,677	11,076,928	46,912,454
53 " " 3 Feb. 1932	29,430,370	4,701,917	1,494,752	35,627,039	3,892,177	3,892,897	1,535,294	9,320,368	44,947,407
48 " " 4 Jan. 1933...	22,458,679	4,434,208	1,548,276	28,441,163	2,472,567	2,842,654	971,620	6,286,841	34,728,004
52 " " 3 Jan. 1934...	23,479,227	4,909,422	2,041,920	30,430,569	2,810,571	3,200,376	1,084,903	7,095,850	37,526,419
	413,280,445	51,333,122	13,030,550	477,644,117	98,149,605	96,268,502	24,283,913	218,702,020	696,346,137

NOTE.—The above Sales Figures do not include Special Contract Sales which represent special contracts from hotels, etc., the total volume of which is relatively small and upon which the gross profit margin is also small.

Statement No. 7.

THE ROBERT SIMPSON COMPANY LIMITED AND SIMPSONS LIMITED

DETAILS OF CAPITAL STOCK AND BOND ISSUES

Particulars	Year of Issue	Par value or Stated Value	Number of Shares	How Issued	Particulars of Retirement	Outstanding at 3rd January, 1934
		$				$
The Robert Simpson Company, Limited—						
5% First Mortgage Bonds	1912	2,250,833		Publicly	Annually by Sinking Fund	1,375,223
6% Cumulative Preference Shares	1912	500,000	* 5,000	Privately		3,350,000
	1912	2,250,000	22,500	Publicly		
	1917	600,000	6,000	Publicly		
Totals		3,350,000	33,500			3,350,000
Common Stock	1896	133,000	1,330	Privately		
	1898	4,500	45			
	1899	162,500	1,625			
	1900	75,000	750			
	1901	125,000	1,250			
	1903	101,900	1,019			
	1904	4,000	40			
	1905	308,000	3,080			
	1906	7,500	75			
	1907	251,900	2,519			
	1908	10,600	106			
	1909	9,000	90			
	1910	618,700	6,187			
	1911	10,900	109			
	1912	922,400	9,224			
	1917	605,100	6,051			
Totals		3,350,000	† 33,500			
Simpsons Limited (1925)—						
6½% Collateral Trust Bonds	1925	5,600 000		Publicly	Retired in 1929	nil
6% Redeemable Cumulative Preference shares	1928	4,000 000	40,000	Publicly	Retired in 1929	nil
	1929	3,000 000	30,000	Publicly	Retired in 1929	nil
Common Stock—No par value	1925	3,350,000	100,000	To common stock shareholders of The Robert Simpson Company Limited.	Company wound up in 1929	nil

Simpson Limited (1929)—						
First Mortgage Bonds—						
Series A—6%	1929	10,000 000	....	Publicly	Annually by Sinking Fund	9,127,600
Series B—5½%	1930	1,250,000	....	Publicly	Annually by Sinking Fund	1,155,900
6½% Cumulative Redeemable Preference Shares	1929	10,000 000	100,000	Publicly		11,250,000
	1930	1,250,000	12,500	Publicly		
Common shares—No par value—						
Class A	1929	4,600,000	120,000	To Management		
Class B	1929	1,461,314	120,000	To Underwriters		5,061,314

* 5,000 Preference shares issued as stock dividend.

† 26,033 of the 33,500 Common shares issued as stock dividends.

NOTE.—Details of the Capital of the subsidiary Companies of The Robert Simpson Company Limited are shown on Statement No. 2. None of these Companies have outstanding bonded indebtedness and their entire capital stock is held by The Robert Simpson Company Limited.

SIMPSONS

STATEMENT OF WINDING

Funds and Shares Available—		Cash	Class "A" shares New Company
(1) Received from Simpsons Limited (1929) for sale of assets the following securities of Simpsons Limited (1929)—			
1. $10,000,000—6 per cent First Mortgage Bonds			
2. $10,000,000—6½ per cent Preference Shares			
3. 120,000 —Class "B" Shares			
all of which were sold to the investment bankers for........		$20,000,000	
and 4. 120,000 Class "A" shares..			120,000 shares
(2) Deposit with National Trust Co. Ltd. for retirement of Collateral Trust Bonds of Simpsons Limited (1925) not transferred to New Company..............................	1,983,192		
(3) Proceeds from sale of 30,969 of above Class "A" shares of Simpsons Limited (1929) sold to employees at $50 per share..	1,548,450		**30,969** shares
(4) Interest on funds on deposit, etc............................	30,752		
A total of..		$ 23,562,394	89,031 shares

Black face type indicates losses or deficits.

Statement No. 9

LIMITED (1925)

UP (JUNE 1929)

		Cash		Class "A" shares New Company
Prior Claims, etc.—				
(1) Own Bonds and Preference Shares Redeemed:				
Bonds—par value	$5,024,800			
premium	200,992			
	$	5,225,792		
Preference Shares—par value	$7,000,000			
premium	350,000			
		7,350,000		
(2) Other Disbursements:				
Retiring Bonds of The Robert Simpson Western Limited—par value	$ 80,000			
premium	2,400			
		82,400		
Dividend on Common shares Simpsons Limited (1925)		150,000		
Payment of incorporation and other expenses of Simpsons Limited (1929)		149,089		
Balance of funds turned over to Simpsons Limited (1929)		56,663		
			13,013,944	
Leaving available for holders of 100,000 Common shares of Simpsons Limited (1925)			$ 10,548,450	89,031 shares
This was distributed:				
To holders of 70,323 shares, cash of $150 per share			$ 10,548,450	
To holders of 29,677 shares, 3 shares of Class "A" stock in New Company for each share formerly held				89,031 shares

SIMPSONS LIMITED AND CONSTITUENT COMPANIES

Comparative Consolidated Balance Sheets for Ten Years 4th February 1925 to 3rd January 1934

Assets	As at 4th February 1925	As at 3rd February 1926	As at 2nd February 1927
	$ cts.	$ cts.	$ cts.
Current Assets:			
Merchandise on hand at approximate cost as certified by Department Managers	7,075,571 10	7,351,667 16	7,428,032 88
Accounts Receivable (after making provision for Bad and Doubtful Accounts)	1,416,717 34	1,877,999 17	2,054,140 42
Payments in advance of receipt of Materials and Goods in Transit	456,428 66	717,879 86	480,472 59
Cash on Hand and in Banks	134,932 53	123,900 93	81,292 64
	9,083,650 23	10,071,447 12	10,043,938 53
Investments	165,887 06	160,870 56	1,140,481 76
Employees Stock Purchase Plan	....	....	....
Sinking Fund:			
Cash in hands of Trustee	31 22	23 80	48 86
Prepaid Charges:			
Proportion of Catalogue Expenditures, Unexpired Insurance Premiums, Discount and Commission on Securities and other Expenses Paid in Advance	673,334 20	682,296 91	699,694 87
Lands, Buildings and Equipment	13,105,086 33	13,160,646 91	13,298,353 54
Less: Reserve for Depreciation of Buildings and Equipment	3,225,116 21	3,768,235 81	4,344,915 23
	9,879,970 12	A 9,392,411 10	8,953,438 31
	19,802,872 83	20,307,049 49	20,837,602 33

	$ cts.
(A) The Book Value of fixed assets as increased at 4th February 1925 by appraisal appreciation of	2,816,850 03
(b) The Book Value of fixed assets was further increased at 26th June 1929 by appraisal appreciation of	5,903,850 09
Total Appraisal Appreciation at 26th June 1929	8,720,700 12

STATEMENT NO. 11

SIMPSONS LIMITED AND CONSTITUENT COMPANIES

COMPARATIVE CONSOLIDATED BALANCE SHEETS FOR TEN YEARS 4TH FEBRUARY 1925 TO 3RD JANUARY 1934

As at 1st February 1928	As at 30th January 1929	As at 29th January 1930	As at 28th January 1931	As at 3rd February 1932	As at 4th January 1933	As at 3rd January 1934
$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
7,923,854 27	8,369,315 37	8,385,498 77	7,444,473 03	6,980,253 83	6,391,631 09	6,204,361 90
2,305,836 95	3,124,939 78	4,164,862 55	4,892,774 26	4,636,865 85	4,517,793 53	4,754,468 63
458,927 02	507,070 99	518,717 51	364,285 92	244,393 05	218,017 29	211,622 19
59,113 23	77,784 95	79,631 19	89,934 05	72,390 07	73,431 83	127,048 69
10,747,731 47	12,079,111 09	13,148,710 02	12,791,467 26	11,933,902 80	11,200,873 74	11,297,501 41
1,850,884 34	2,805,844 50	....	....	....	....	373,491 17
....	....	....	....	271,680 00	299,252 00	299,252 00
3 97	37 97	20 89	127 28	58 77	....	....
765,716 33	848,020 24	821,963 69	1,051,567 35	945,218 26	910,510 41	824,960 89
13,691,306 33	16,850,917 11	21,665,984 07	23,991,125 47	24,633,225 14	24,701,333 23	24,760,207 19
4,908,591 09	5,482,181 37	459,307 97	1,219,432 86	1,839,378 30	1,831,156 39	2,417,809 73
8,782,715 24	11,368,735 74	21,206,676 10	b22,771,692 61	22,793,846 84	22,870,176 84	22,342,397 46
22,147,051 35	27,101,749 54	35,177,370 70	36,614,854 50	35,944,706 67	35,280,812 99	35,137,602 93

SIMPSONS LIMITED AND CONSTITUENT COMPANIES

COMPARARTIVE CONSOLIDATED BALANCE SHEETS FOR TEN YEARS 4TH FEBRUARY, 1925, TO 3RD JANUARY 1934

Liabilities	As at 4th February 1925	As at 3rd February 1926	As at 2nd February 1927
	$ cts.	$ cts.	$ cts.
Current Liabilities—			
Bank Loans and Overdrafts	427,374 87	....	....
Accounts Payable	1,609,170 64	1,577,790 20	1,125,687 69
Accrued Taxes, Interest, Wages, Rent, etc.	618,326 62	772,931 09	797,264 81
Reserve for Bonuses, and Employees' Savings and Profit Sharing Fund	275,039 40	282,959 80	346,919 50
Accrued Dividends	....	150,250 00	150,250 00
Accrued Interest on First Mortgage and Collateral Trust Sinking Fund Gold Bonds	....	126,000 00	120,723 34
	2,929,911 53	2,909,931 09	2,540,845 34
Reserve for completion of new Montreal Construction	....	....	....
Bonds, Mortgages and Preference Shares of Subsidiary Companies—			
Mortgages	418,165 99	397,365 44	260,907 09
5% First Mortgage Bonds—The Robert Simpson Company Limited	1,852,058 65	1,810,497 32	1,767,281 34
6% First Mortgage Bonds—The Robert Simpson Western Limited	280,000 00	240,000 00	200,000 00
6% Cumulative Preference Shares of The Robert Simpson Company Limited	3,350,000 00	3,350,000 00	3,350,000 00
	5,900,224 64	5,797,862 76	5,578,188 43
Funded Debt of Simpsons Limited—			
Six and one-half Per cent Bonds	5,600,000 00	5,600,000 00	5,467,000 00
Six Per Cent—Series A Bonds—due 1949	....	....	....
Five and one-half Per Cent—Series B Bonds—due 1949	....	....	....
	5,600,000 00	5,600,000 00	5,467,000 00
Miscellaneous Reserves	....	....	227,975 35
Capital and Surplus—			
Simpsons Limited (1925)—			
Six Per Cent Cumulative Redeemable Preference Shares	....	....	....
100,000 shares of No Par Value	5,372,736 66	5,372,736 66	5,372,736 66
Profit and Loss	....	626,518 98	1,650,856 55
Simpsons Limited (1929)—			
Six and one-half Per Cent Cumulative Redeemable Preference Shares	....	....	....
120,000 Class "A" and 120,000 Class "B" Shares of No Par Value	....	....	....
Profit and Loss	....	....	....
	19,802,872 83	20,307,049 49	20,837,602 33

STATEMENT No. 11

SIMPSONS LIMITED AND CONSTITUENT COMPANIES

COMPARATIVE CONSOLIDATED BALANCE SHEETS FOR TEN YEARS 4TH FEBRUARY TO 3RD JANUARY, 1934

As at 1st February 1928	As at 30th January 1929	As at 29th January 1930	As at 28th January 1931	As at 3rd February 1932	As at 4th January 1933	As at 3rd January 1934
$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
....	....	....	....	....	....	....
1,360,425 87	1,465,965 99	1,864,860 77	1,677,682 70	2,508,753 20	2,659,054 18	2,630,048 18
901,377 94	969,048 89	1,080,008 18	886,871 95	596,585 38	382,693 74	408,545 52
421,679 08	429,015 15	427,197 87	253,450 97	41,846 48	12,973 62	16,675 20
150,250 00	169,976 03	272,750 00	293,062 50	56,343 75	34,790 00	34,790 00
116,696 25	112,558 20	46,153 88	50,529 38	56,506 37	3,468 69	1,688 48
2,950,429 14	3,146,564 26	3,690,970 70	3,161,597 50	3,260,035 18	3,092,980 23	3,091,747 38
....	....	940,833 33	225,285 80	....	....	....
248,750 86	235,854 37	....	....	....	....	....
1,722,410 66	1,675,495 99	1,622,838 66	1,569,402 66	1,506,427 99	1,438,002 66	1,375,222 66
160,000 00	120,000 00	....	....	....	....	....
3,350,000 00	3,350,000 00	3,350,000 00	3,350,000 00	3,350,000 00	3,350,000 00	3,350,000 00
5,481,161 52	5,381,350 36	4,972,838 66	4,919,402 66	4,856,427 99	4,788,002 66	4,725,222 66
5,327,600 00	5,180,800 00	....	....	....	....	....
....	....	10,000,000 00	9,802,200 00	9,590,300 00	9,365,700 00	9,127,600 00
....	....	....	1,250,000 00	1,224,400 00	1,197,900 00	1,155,900 00
5,327,600 00	5,180,800 00	10,000,000 00	11,052,200 00	10,814,700 00	10,563,600 00	10,283,500 00
232,764 38	232,484 45	....	....	....	....	....
....	4,000,00 000	....	....	....	....	....
5,372,736 66	5,372,736 66	....	....	....	....	....
2,782,359 65	3,787,813 81	*............	....	....	....	....
....	....	10,000 000 00	11,250,000 00	11,250,000 00	11,250,000 00	11,250,000 00
....	....	5,061,314 22	5,061,314 22	5,061,314 22	5,061,314 22	5,061,314 22
....	....	511,413 79	945,054 32	702,229 28	524,915 88	725,818 67
22,147,051 35	27,101,749 54	35,177,370 70	36,614,854 50	35,944,706 67	35,280,812 99	35,137,602 93

* Capitalized upon incorporation of Simpsons Limited (1929).

SIMPSONS LIMITED AND CONSTITUENT COMPANIES

Comparative Consolidated Statement of Profit and Loss for Nine Years Ended 3rd January, 1934

	—	1925 52 weeks ended 3rd February 1926	1926 52 weeks ended 2nd February 1927	1927 52 weeks ended 1st February 1928
		$	$	$
1	Combined Profit from Operations before deducting Depreciation	2,568,494	3,168,993	3,425,222
2	*Less:*—Depreciation of Building and Equipment	543,120	576,680	563,676
3	Combined Profit from Operations after deducting Depreciation	2,025,374	2,592,313	2,861,546
	Deduct: Bond Interest and Dividends of Subsidiary Companies—			
4	Interest on Bonds	92,180	90,525	87,689
	Dividends—Paid and Accrued, The Robert Simpson Co., Ltd			
5	Preferred Shares	251,250	201,000	201,000
6	Common Shares	58,625	.....	.....
7		402,055	291,525	288,689
8		1,623,319	2,300,788	2,572,857
	Deduct:			
9	Bond Interest of Simpsons Limited	308,000	354,401	346,797
10	Contribution to Employees' Savings and Profit Sharing Fund	230,000	280,000	362,753
11	Provision for Profit Taxes	208,800	242,050	231,803
12	Commission and Expenses re issue of Preference Shares			
13		746,800	876,451	941,353
14	Net Profit or *loss* of Simpsons Limited for period	876,519	1,424,337	1,631,504
15	Balance of Profit and Loss from previous period	.....	626,519	1,650,856
16	*Add:* Net Profit or *loss* for period (as above)	876,519	1,424,337	1,631,504
17		876,519	2,050,856	3,282,360
	Less: Dividends Paid on the shares of Simpsons Limited—			
18	Preference Shares	.....	.....	.....
19	Class "A" Shares	.....	.....	.....
20	Common Shares	250,000	400,000	500,000
21		250,000	400,000	500,000
	Balance of Profit and Loss as per Comparative Consolidated—Balance Sheet (Statement No. 11)			
22	Simpsons Limited (1925)	626,519	1,650,856	2,782,360
23	Simpsons Limited (1929)	.....	.....	.....

*Capitalized when new Company (Simpsons Limited (1929)) organized.

Black face type indicates losses or deficits.

Statement No. 12

SIMPSONS LIMITED AND CONSTITUENT COMPANIES

Comparative Consolidated Statement of Profit and Loss for Nine Years Ended 3rd January 1934

1928	1929	1929	1930	1931	1932	1933	
52 weeks ended 30th January 1929	21 weeks ended 26th June 1929	31 weeks ended 29th January 1930	52 weeks ended 28th January 1931	53 weeks ended 3rd February 1932	48 weeks ended 4th January 1933	52 weeks ended 3rd January 1934	
$	$	$	$	$	$	$	
3,621,975	1,105,214	2,316,990	3,277,687	2,231,351	679,278	1,826,607	1
573,590	305,164	459,308	776,675	626,256	....	603,149	2
3,048,385	800,050	1,857,682	2,501,012	1,605,095	679,278	1,223,458	3
85,692	33,753	49,827	80,485	79,263	69,084	71,689	4
201,000	81,170	119,830	201,000	201,000	185,540	201,000	5
....	....	....	....	....	....	....	6
286,692	114,923	169,657	281,485	280,263	254,624	272,689	7
2,761,693	685,127	1,688,025	2,219,527	1,324,832	424,654	950,769	8
337,385	138,142	346,154	638,751	662,155	588,993	624,891	9
359,889	173,330	187,542	135,000	42,198	12,974	16,675	10
248,305	83,381	143,750	101,000	....	....	108,300	11
170,934	....	....	....	....	....	....	12
1,116,513	394,853	677,446	874,751	704,353	601,967	749,866	13
1,645,180	290,274	1,010,579	1,344,776	620,479	**177,313**	200,903	14
2,782,360	3,787,814	....	511,414	945,054	702,229	524,916	15
1,645,180	290,274	1,010,579	1,344,776	620,479	**177,313**	200,903	16
4,427,540	4,078,088	1,010,579	1,856,190	1,565,533	524,916	725,819	17
139,726	190,274	379,165	671,136	743,304	....	....	18
....	....	120,000	240,000	120,000	....	....	19
500,000	100,000	....	....	....	....	....	20
639,726	290,274	499,165	911,136	863,304	....	....	21
3,787,814	* 3,787,814	....	....	....	....	....	22
....	....	511,414	945,054	702,229	524,916	725,819	23

SIMPSONS LIMITED AND CONSTITUENT COMPANIES

Consolidated Statement of Profit and Loss for Ten Years 1924 to 1933 Inclusive

		1924 53 weeks ended 4th February, 1925	1925 52 weeks ended 3rd February, 1926	1926 52 weeks ended 2nd February, 1927
		$	$	$
	Operating Companies—			
1	Sales	37,378,373	39,167,130	41,316,827
2	Cost of Sales	26,351,923	27,821,721	28,859,836
3	Gross Profit	11,026,450	11,345,409	12,456,989
4	Gross Profit percentage to Cost of Sales	41·8%	40·8%	43·2%
5	*Deduct:* Expenses (excluding depreciation and interest)	8,450,162	8,836,042	9,108,261
6	Departmental Operating Profits before charging interest and depreciation	2,576,288	2,509,367	3,348,728
7	*Deduct:* Depreciation on Fixed Assets	521,840	543,120	576,680
8	Departmental Operating Profits after charging Depreciation but before charging interest	2,054,448	1,966,247	2,772,048
9	*Deduct:* Interest charged to Departments	976,593	1,014,275	1,052,123
10	Departmental Operating Profits or *Losses* after charging Interest and Depreciation	1,077,855	951,972	1,719,925
11	*Less:* Adjustments of Inventory Reserves	25,000	**50,000**	155,000
12	Adjustments of Depreciation	....	....	....
13	Total adjustments	25,000	**50,000**	155,000
14	Net Departmental Profits or *Losses*	1,052,855	1,001,972	1,564,925
15	*Add:* Interest charged to departments as shown above	976,593	1,014,275	1,052,123
16	Miscellaneous Revenue, less expense (net)	**2,815**	**16,125**	31,808
17	Miscellaneous Adjustments	**6,821**	48,982	**51,944**
18	Special Contract Profits or *Losses*	....	....	....
19		2,019,812	2,049,104	2,596,912
20	*Add:* Depreciation provided out of Departmental Operations and included in rent credited to Simpsons Limited	....	....	....
21		2,019,812	2,049,104	2,596,912
22	*Less:* Rents credited to Simpsons Limited	....	....	....
23		2,019,812	2,049,104	2,596,912
24	Add: Depreciation written back	....	....	....
25	Net Profit or *Loss* before provision for Income Taxes, Bonuses and Bond Interest, etc	2,019,812	2,049,104	2,596,912
	Simpsons Limited—			
26	Rentals from Operating Companies as above	....	....	....
27	Miscellaneous Income	....	**23,730**	**4,599**
28		2,019,812	2,025,374	2,592,313
29	*Less:* Depreciation on Buildings and Equipment	....	....	....
30	Sundry Adjustments	....	....	....
31	Combined profit from operations before deducting Bond Interest, Income Taxes, dividends, etc., as shown on Statement 12	2,019,812	2,025,374	2,592,313

Black face type indicates losses or deficits.

Statement No. 16

SIMPSONS LIMITED AND CONSTITUENT COMPANIES

Consolidated Statement of Profit and Loss for ten Years 1924 to 1933 Inclusive

1927 52 weeks ended 1st February, 1928	1928 52 weeks ended 30th January, 1929	1929 52 weeks ended 29th January, 1930	1930 52 weeks ended 28th January, 1931	1931 53 weeks ended 3rd February, 1932	1932 48 weeks ended 4th January, 1933	1933 52 weeks ended 3rd January, 1934	
$	$	$	$	$	$	$	
42,529,228	44,806,124	48,196,336	46,912,456	44,956,351	34,728,005	37,526,418	1
29,587,549	30,848,770	33,122,558	32,506,787	31,945,611	24,478,408	26,006,686	2
12,941,679	13,957,354	15,073,778	14,405,669	13,010,740	10,249,597	11,519,732	3
43·7%	45·2%	45·5%	44·3%	40·7%	41·9%	44·3%	4
9,513,422	10,436,271	11,488,690	11,373,054	11,297,626	9,548,311	9,710,454	5
3,428,257	3,521,083	3,585,088	3,032,615	1,713,114	701,286	1,809,278	6
563,676	573,590	864,469	882,662	909,032	838,358	604,869	7
2,864,581	2,947,493	2,720,629	2,149,953	804,082	**137,072**	1,204,409	8
1,041,477	1,091,090	1,374,075	1,520,377	1,668,286	1,450,837	1,668,672	9
1,823,104	1,856,403	1,346,544	629,576	**864,204**	**1,587,909**	**464,263**	10
109,000	117,000	67,000	**154,052**	**503,313**	**40,000**	....	11
....	....	**100,000**	....	**179,000**	....	....	12
109,000	117,000	**33,000**	**154,052**	**682,313**	**40,000**	....	13
1,714,104	1,739,403	1,379,544	783,628	**181,891**	**1,547,909**	**464,263**	14
1,041,477	1,091,090	1,374,075	1,520,377	1,668,286	1,450,837	1,668,672	15
111,996	97,481	**12,925**	87,298	91,448	44,768	49,287	16
11,164	....	**269,860**	595	....	**40,000**	....	17
11,164	**7,230**	**5,031**	38	**30,135**	**10,342**	**26,702**	18
2,867,577	2,920,744	2,465,803	2,391,936	1,547,708	**102,646**	1,226,994	19
....	....	147,201	265,407	271,094	280,514	184,642	20
2,867,577	2,920,744	2,613,004	2,657,343	1,818,802	177,868	1,411,636	21
....	....	516,960	1,094,135	1,274,175	1,211,075	1,312,000	22
2,867,577	2,920,744	2,096,044	1,563,208	544,627	**1,033,207**	99,636	23
....	....	....	....	....	564,618	....	24
2,867,577	2,920,744	2,096,044	1,563,208	544,627	**468,589**	99,636	25
....	....	516,960	1,094,135	1,274,175	1,211,075	1,312,000	26
6,031	127,641	191,932	3,089	**49,737**	**69,294**	5,043	27
2,861,546	3,048,385	2,804,936	2,660,432	1,769,065	673,192	1,416,679	28
....	....	147,204	159,420	163,970	....	178,221	29
....	....	....	....	....	**6,086**	15,000	30
2,861,546	3,048,385	2,657,732	2,501,012	1,605,095	679,278	1,223,458	31

Q. Now, Mr. Adamson, will you just state to the committee the position you found with respect to the Robert Simpson Company, as requested?—A. The first statement submitted is statement No. 1, which is an organization chart. On this statement is shown in chart form the companies composing—

Q. Will you speak a little louder so the members of the committee can hear you?—A. On statement No. 1 is shown in chart form the companies at present comprising the Simpson organization; indicating their relationships and functions. The Robert Simpson Company Limited operates the Toronto store and owns the entire capital stock of:—

The Robert Simpson Eastern Limited.
The Robert Simpson Western Limited.
The Robert Simpson Montreal Limited.
Keens Manufacturing Co. Limited.
Central Indoor Parking Garage Limited.
The Robert Simpson Company (London) Limited (London, England).
The Robert Simpson Drug Co. Limited.
Les Representants de Robert Simpson S.A. (Paris, France).

Q. Then the holding company is——A. The holding company, the operating company—

Q. —the Robert Simpson Company Limited?—A. Right.

Q. And it owns all the capital of all those companies?—A. That is right, yes. The capital of the last four of the above companies is nominal and in the accounts of the Robert Simpson Company Limited, their operations are treated as departments of that company rather than as separate organizations.

Q. Everything from the Thompson Manufacturing Company, the Central Indoor Parking Garage Limited, the London office, the drug company, and the various combined companies——A. That is correct, sir. Simpson's Limited (1925) was incorporated in 1925 to acquire the common stock—

Q. Let us get that clear. There were two companies; first of all the operating company or the old parent company?—A. Yes, that is right.

Q. That operating company has operated for a great many years?—A. Since before 1900.

Q. And operates up to the present time?—A. Yes.

Q. In 1925 a company was incorporated called Simpson's Limited?—A. That is right.

Q. And that was incorporated for the purpose of acquiring all the outstanding common shares of the parent operating company?—A. That is right, yes.

Q. And the shareholders of that parent operating company turned over their shares to Simpson's, Limited (1925)?—A. That is right.

Q. For a certain consideration?—A. Yes.

Q. We will get the full financial set-up of those various set-ups subsequently to this——A. That is right.

Q. —and a commentary on the organization?

Mr. Ilsley: 1929 is the year?

The Witness: 1925, the first.

Mr. Sommerville: Then, four years later, a change was made?

The Witness: Simpson's Limited (1925) was incorporated in 1925 to acquire the common stock of the Robert Simpson Company Limited, which up to that time was the controlling company of the Simpson organization. Simpson's Limited (1929) was incorporated in 1929 and acquired the assets of Simpson's Limited (1925) which was wound up at that time.

By Mr. Sommerville:

Q. Simpson's Limited (1929) replaced Simpson's Limited (1925)?—A. Yes.

Q. Simpson's (1925) passed out of the picture?—A. Yes.

Q. Briefly at this point, perhaps one could indicate that, just as it will be developed by the financial set-up later, Simpson's (1925) distributed some $5,000,000 among its shareholders?—A. Yes.

Q. And still retained all the common shares of Simpson's?—A. Of the Robert Simpson Company.

Q. The operating company?—A. Yes.

Mr. Factor: What do you mean; did they distribute the profit, surplus?

Mr. Sommerville: No. Perhaps you had better describe it—I think we had better leave it until we come to the financial structure, but the situation was that the common shareholders—

The Witness: Simpson's Limited (1925) bought the shares of the common shareholders of the Robert Simpson Company.

By Mr. Sommerville:

Q. And paid them for those shares $5,000,000?—A. That is right, yes.

Q. And paid for, also, all the shares in Simpson's (1925)?—A. Yes.

Q. So that these shareholders of the 1925 company owned all the shares of the 1925 company?—A. Yes.

Q. And had as well $5,000,000 cash?—A. Yes.

Q. As the owners of all the shares of the 1925 company, they owned all the common stock of the parent operating company?—A. That is right.

Q. They paid out $5,000,000 in cash and still retained the entire ownership of all the common stock of the operating company?—A. Yes, that is right.

By Mr. Factor:

Q. Did they get share for share in addition to the cash?—A. Three shares for one in the new company, 33,500 shares of common stock of the Robert Simpson Company outstanding, and there were 100,000 shares of Simpson's Limited (1925) issued on the basis of three for one.

Mr. Heaps: How many shareholders were there?

By Mr. Sommerville:

Q. We will give you all the details as we go into the financial structure. The 1929 company was incorporated and it bought the shares of the 1925 company? —A. That is right.

Q. And these assets consisted of all the common stock of the parent company?—A. That is right.

Q. That is, all the assets that they had, plus some money that they had advanced?—A. To the operating company.

Q. And the consideration for the purchase which they paid to Simpson's Limited, 1925, was a sum of how much?—A. They gave them the bonds and shares of Simpson's Limited, 1929, which were sold to underwriters.

By the Chairman:

Q. For how much?—A. Twenty million dollars.

By Mr. Factor:

Q. Would you mind developing that last a bit, $20,000,000 they gave to whom, the shareholders?—A. In 1929 Simpson's Limited of 1925 sold all of his assets, with the exception of cash on deposit for sinking fund purposes which is described later, to a new company, Simpson's Limited, 1929, for: $10,000,000 of

6 per cent first mortgage bonds; \$10,000,000 of 6½ per cent preference shares; and 120,000 class B shares of no par value; there were also 120,000 class A shares. The first three items which I have given were sold by the underwriters for a total sum of \$20,000,000.

By Mr. Sommerville:

Q. And Simpson's Limited, 1929, got \$20,000,000?—A. That is right.

Q. And distributed that \$20,000,000 in a certain manner?—A. Yes.

Q. And of the \$20,000,000 which they then distributed some \$10,000,000 went to the shareholders?—A. That is right, to the majority shareholders.

Q. To the majority shareholders of Simpson's 1925 company?—A. That is right.

By the Chairman:

Q. Now, the result of that, Mr. Adamson, if I gather the picture is that in these various manipulations and this reconstruction process of the sale of the 1925 company to the 1929 company, there was actually taken out the sum of about fifteen million dollars?—A. That is right.

Q. That would be what might be termed in common parlance, winnings of the Mercantile Company which were distributed.

Mr. HEAPS: Were not these shares subscribed for by the public?

Mr. SOMMERVILLE: We will come to that. We want to catch the simple picture first, then we will develop it as it is developed in the statement.

Mr. FACTOR: I cannot understand the assumption that the Chairman makes, that it is taken out of winnings.

The CHAIRMAN: It is.

By Mr. Sommerville:

Q. I am sure that as the situation is developed from the statements we will get the complete picture as to what the situation was when Simpson Limited, 1929, acquired all the assets of the 1925 company?—A. That is right.

Q. And the 1925 company went out of existence?—A. Yes.

Q. And when it went out of existence the majority shareholders of the old company distributed among them approximately ten million dollars?—A. Yes.

Q. And the minority shareholders of that company received shares instead of cash?—A. Shares in the new company.

Q. So that the majority shareholders passed out of the picture and the minority shareholders came into control of the new company?—A. That is right, the Class A shares were distributed to the minority interest.

Q. Yes, it was a means of buying out the majority interest of the Robert Simpson Company.

By Mr. Factor:

Q. Were the assets of the 1925 company appreciated to the extent of that 20 million dollars; is that the story?—A. I think that could be more easily explained as we go along, there is a complete memorandum on it.

By the Chairman:

Q. Would it suffice for the moment to say that the funds necessary to pay these large sums were taken out of the bonds sold?—A. That is right, yes. Bonds and stocks.

Q. Based upon the stock value, which in turn was based upon the assets of the Robert Simpson Company.

Mr. SENN: Does that apply to the five million as well as to the ten?

The CHAIRMAN: It applies to both.

By Mr. Sommerville:

Q. In other words, the monies obtained by Simpsons Limited, 1925, were obtained from the public?—A. Yes, through the sale of bonds.

Q. The only security behind those bonds were the common shares?—A. In the Robert Simpson Company.

Q. The operating company?—A. That is right.

Q. In other words, it was not the ordinary course of bond mortgage issue on real estate and fixed assets?—A. No.

Q. It was a bond issue by a company which company owned nothing but common shares in another company?—A. That is right.

Q. And the common shares owned by that 1925 company were subject to outstanding senior obligations of the operating company?—A. Yes.

Q. Already subject to mortgage bonds and preference shares?—A. That is right.

Q. That were outstanding at that time in the operating company and are still outstanding?—A. Yes.

Q. So that the first financing of the 1925 company was done by the sale of these bonds to the public upon the basis of?—A. The security of these common shares.

Mr. ILSLEY: The only effect of that is that the first mortgage on the shares was in fact a second mortgage on the real asset; that is the effect of that, is it not?

Mr. SOMMERVILLE: Not even that, because you have a first mortgage on the assets in the way of bonds.

Mr. ILSLEY: Of the operating company.

Mr. SOMMERVILLE: Then you had the preference shares of the operating company, then you had your common shares which took third position, and now you have a mortgage upon that third position.

Mr. ILSLEY: In a sense a third mortgage on the real assets.

Mr. SOMMERVILLE: And subsequently the sale of these securities of 20 million, that have been referred to the public provided the money is necessary to finance the distribution and the elimination of the majority shareholders?

The WITNESS: Yes.

Mr. SOMMERVILLE: Now we will come to who they were and what they got.

Mr. FACTOR: What was this five million used for when the first company was formed in 1925?

The WITNESS: It was paid to the common shareholders of the Robert Simpson Company.

The CHAIRMAN: Will you pardon me if I interrupt, Mr. Factor: in your description of the financial set-up all this information will be given?

The WITNESS: That is all dealt with in detail.

By Mr. Sommerville:

Q. Now, will you just proceed with the statement showing the history and development of the company?—A. On statement No. 2 is shown the details of the incorporation of the various companies, their capital, bonded indebtedness and the names of the directors, etc.

Q. That would be dealt with late, would it not?

Mr. JOHNSON: I understand the statements are on their way here now and will be available presently.

The CHAIRMAN: We are just waiting for them to arrive so that the members of the committee will have copies of these statements before them.

Mr. SOMMERVILLE: Then we will refer to that again.

The WITNESS: Then, as to the growth of the business: on statement No. 3 is shown a chronological table indicating the extension of the business from 1872 to the present time.

"TORONTO STORE

The Robert Simpson Company, Limited, had it origin in a store founded by the late Mr. Robert Simpson in 1872. This store was located on Yonge street, just south of Queen street and during the next quarter century it expanded until it occupied a relatively large building at the corner of Queen and Yonge streets.

The business of Robert Simpson was not incorporated until 1896 when The Robert Simpson Company, Limited was incorporated with an authorized capital of $500,000. Two years later in 1898 the 1,375 issued shares of this Company were purchased by the late Mr. H. H. Fudger, Sir Joseph Flavelle and Mr. A. E. Ames.

On Statement No. 4 is submitted a plan of the area now occupied by the Toronto Store and from it the expansion of the past forty years can be judged and more particularly the extensions of 1900, 1908, 1912, 1923 and 1929 can be followed."

By Mr. Sommerville:

Q. 1375 shares?—A. That was the total issue of capital at that time.

Q. That is what the original three owners of the Robert Simpson Company Limited got?—A. Yes.

Q. And the subsequent history of the company will show in what manner the 1375 shares grew?—A. That is right, yes.

Q. And they amounted to 33,500 in 1925?—A. Yes.

Q. And just at this time could you tell us what was paid for the 1375 shares?—A. I could not tell you what was paid, because it was a transaction between the new owners and the old owner of the business, it is not a company transaction.

Q. Then you do not know the amount of the investment made by these three gentlemen in the business?—A. No. Dealing with the mail order section of the business;

"The mail order business was commenced as a store service. The first catalogue was issued in 1894 and by 1914 the business had grown large enough to require a separate building for it and it was therefore transferred to a warehouse on Front Street. In 1916 it was moved to the new Mutual Street Building which was built primarily for that purpose.

In 1915 The Robert Simpson Western Limited was incorporated to handle the mail order business in Western Canada and a warehouse was erected in Regina. In 1919 The Robert Simpson Eastern Limited was incorporated and a building erected in Halifax to take care of the mail order business in the Maritime Provinces. Retail departments are operated by the various mail order branches at Toronto, Regina and Halifax. In 1925 the Toronto Mail Order Division, formerly owned by the Toronto Store, was transferred to The Robert Simpson Eastern Limited.

MONTREAL STORE

In 1904 The Robert Simpson Company Limited secured control of The John Murphy Company Limited which operated a department store in Montreal. In 1929 the name of this Company was changed to "The Robert Simpson Montreal Limited" and in 1930 a new building was erected.

All of the capital of which was found by the Robert Simpson Company.

Q. The operating company?—A. Yes.

Dealing with factories:—

"The largest factory of the Simpson organization is that known as Keens Manufacturing Company Limited, which manufactures ladies' dresses for the Mail Order Division. This Company was purchased by The Robert Simpson Company Limited in 1913 and is situated in the Mutual Street Building. All the other factories and workrooms are comparatively small and most of them are operated as departments of the Toronto Store.

On Statement No. 5 is shown the centres at which business is conducted by the various companies of the organization. The locations of the various order offices and points from which agents transact business are shown on this statement. The business obtained by these order offices and agents represents only a small portion of the total volume."

Q. The places at which businesses are located in Ontario, retail stores, are—?—A. Toronto and Montreal, and at Regina and Halifax retail sections of the mail order business are operated.

Q. Yes, order offices are established where?—A. In Ontario at New Toronto, Oshawa and Brampton; these are suburban offices, the company refers to these as suburban offices. Other order offices are at Barry, Brockville, Hamilton, Kirkland Lake, Owen Sound, Peterborough, Rouyn, Timmins and Trenton.

Q. These order offices are places where orders may be given?—A. That is right, sir.

Q. And there are no large premises maintained, or no stocks on hand?—A. In some of them they have small stocks.

Q. At the order offices?—A. Yes.

By the Chairman:

Q. They are not retail stores?—A. No.

Q. Quite so?—A. Most of them have only samples on hand.

There are in addition to these order offices what are known as merchant agents, who are paid a commission for the business which they transact for the company.

Q. This is a development which is peculiar to the Simpson Company, is it not; the merchant agent?—A. Yes.

Q. In these cases you have merchant agents, and these merchant agents are paid a commission?—A. Yes.

Q. The stock of goods is provided for them?—A. It is a consignment stock.

Q. A consignment stock, and the merchant agent handles the stock and pays all the expenses and does all the collecting?—A. The company itself is responsible for collections, although in the case of credit sales the agent makes in the event of loss the company stands the loss.

Q. And the company allow the agent a commission?—A. Yes.

Q. Do you remember the amount of the commission?—A. It varies in various places and on various goods, but it averages about 15 per cent.

By Mr. Senn:

Q. Is this on all lines of goods?—A. On heavy goods.

By Mr. Sommerville:

Q. And the company therefore allow the agent 15 per cent of this commission on which to transact business, and that is the limit of the profit he makes on any transaction?—A. Yes.

Q. That is their measure of the cost of operating these businesses when they supply the stock?—A. Yes.

Q. And they assume the risk of loss in collection?—A. Yes.

Mr. FACTOR: A pretty good profit, isn't it, the merchant gets 15 per cent.

Mr. SOMMERVILLE: But the merchant has to pay all wages, rents, taxes and charges of all kinds.

The WITNESS: They are usually merchants who are in business for themselves.

By Mr. Sommerville:

Q. But they have the stock provided then?—A. By the Simpson Company.

Q. And these merchant agents are at— —A. In Ontario: Ansonville, Brockville, Belleville, Brampton, Brantford, Burlington, Chatham, Cochrane, Englehart, Haileybury, Ingersoll, Kapuskasing Kingston Kitchener, New Toronto, Oshawa, Port Hope, St. Catharines, St. Thomas, Smooth Rock Falls, Sudbury, Tweed, Whitby; in Saskatchewan: at Avonlea, Estevan, Millville, Moose Jaw, North Battleford, Prince Albert, Saskatoon, Swift Current, Weyburn, Wynward, Yorkton.

By Mr. Heaps:

Q. Do they keep much stock at these places?—A. It varies with different places.

Q. Have you any idea as to the quantity?—A. It runs from $4,000 to $15,000.

By Mr. Senn:

Q. In a place like the city of Brantford, which is a fairly large centre, would they only have one agent or a number?—A. I can give you that information in just a minute.

Mr. SOMMERVILLE: You gave us the province of Saskatchewan.

Mr. HEAPS: I notice that Weyburn is there.

Mr. SOMMERVILLE: Yes.

The WITNESS: I find that at Brantford there is only one agent.

Mr. SENN: I was just mentioning Brantford as an example, as a rule there is just one agent at one centre.

The WITNESS: Yes. There may be several agents working out of the order offices in the different places.

By Mr. Sommerville:

Q. And the mail order houses are at?—A. Toronto, Regina and Halifax.

By Mr. Factor:

Q. Have you anywhere the percentages of the volume of business done respectively by the mail order houses and the retail stores; also the order offices and the merchant agents?—A. There are statements showing that.

Q. Because you say in your statement here that order offices and agents represent only a small proportion of the total volume?—A. There is a statement on that.

By Mr. Sommerville:

Q. Yes?—A. Dealing now with the comparative statement of the annual sales from 1915 to 1933 inclusive.

"The growth of the business in the last twenty years is indicated on the comparative statement of sales from 1914 to 1933 inclusive (Statement No. 6). This statement shows the sales by divisions and in total. In 1914, the total sales were approximately $14,000.000 but by 1929 they had increased to $48,000,000—the total volume in 1933 was $37,500,000. The mail order sales

(which are included in the total volume referred to above) reached a peak of $14,300,000 in 1920 and in the subsequent eight years fluctuated between $11,500,000 and $13,700,000. Since 1929 the mail order sales volume has been decreasing more rapidly than that of the retail stores and in 1933 was $7,000,000. The retail departments of the Mail Order Companies, however, show substantial growth from year to year, having increased from $1,154,000 in 1929 to $2,042,000 in 1933. The Montreal business has also been steadily increasing and in the past year sales were approximately $5,000,000."

By Mr. Factor:

Q. What do you mean by the retail department of the mail order company?—A. In both Toronto, Regina and Halifax there is a retail salesroom in connection with the mail order business.

By Mr. Sommerville:

Q. And in the mail order building?—A. In the mail order building.

By Mr. Factor:

Q. Do you mean that I can go to the mail order building and buy retail there, the same as from the mail order catalogue?—A. Anybody can go in there.

Mr. YOUNG: Anybody can go right in and buy in the store.

Mr. SENN: Is not that for the convenience of out of town customers?

The WITNESS: Anybody can go in there.

By Mr. Heaps:

Q. Do they have a display of goods there?—A. Yes.

By Mr. Factor:

Q. What would be the advantage of a Toronto resident in going to the retail department of the mail order house and ordering from the catalogue; what would be the advantage?—A. I could not say; except that he may have lived in the country and be used to buying from the mail order catalogue.

By Mr. Kennedy (Peace River):

Q. Would it take less time to sell him in that manner, he would know exactly what he wanted?—A. I could not say as to that.

By Mr. Young:

Q. It is like an ordinary department store?—A. The retail volume through the mail order division in Toronto is very small.

Q. You do not need a catalogue to buy in those stores?—A. No.

Q. You can go in and buy over the counter the same as anywhere else?—A. Yes.

By Mr. Kennedy (Peace River):

Q. And the price is the same?—A. Yes.

By Mr. Sommerville:

Q. Yes?—A. Dealing now with a comparison of the number of employees:

"Records of the numbers of employees of the organization are not available prior to 1926. The following is a summary of the average number of persons

employed by the whole organization in the month of October during each of the past eight years along with the comparable figures for the Toronto units:—

	Total employees	Employees of Toronto units
1926	4,967	3,897
1927	5,228	4,071
1928	5,880	4,602
1929	6,700	5,464
1930	6,433	5,129
1931	6,365	4,947
1932	6,120	4,662
1933	6,228	4,650

By Mr. Factor:

Q. Apparently they have not reduced the number of employees to any appreciable extent since 1930?—A. Not very greatly.

By Mr. Sommerville:

Q. About ten per cent?—A. The business of some units of organization has been increasing, and for that reason they do not show a reduction in the number of employees.

Mr. Ilsley: It is not ten per cent.

Mr. Sommerville: I beg your pardon, I was not looking at the total I was looking at the Toronto units.

The Witness: The Toronto units have been reduced from 5,129 in 1930, to 4,650 in 1933.

"*Merchandise Transactions.*—A comparison of the merchandise transactions and the average value of these transactions for the whole selling organization (exclusive of Toronto resultant transactions) for the past six years (the only period for which these records are available) is as follows:—

	Merchandise transactions	Average transaction value
1928 (52 weeks)	18,515,967	$2 60
1929 (52 weeks)	20,661,965	2 54
1930 (52 weeks)	19,608,179	2 61
1931 (53 weeks)	20,855,906	2 34
1932 (48 weeks)	19,924,541	1 94
1933 (52 weeks)	22,922,931	1 80

While the sales volume in dollars is not as great as two or three years ago the number of merchandise transactions shows an increase. The average transaction value has been reduced from $2.60 in 1928 to $1.80 in 1933."

Q. Now then, just before leaving that memorandum of developments, the retail sales have increased from a total of $9,534,000 in 1915, to a total of $30,430,000 in 1933?—A. In 1933.

By Mr. Heaps:

Q. What was the retail in that year?—A. In the retail?

Q. Yes?—A. In 1929 it reached $35,500,000, in 1931 it reached the peak of $35,000,000.

By Mr. Sommerville:

Q. And then it dropped to twenty-eight million, and up again to thirty million. Now then, in the mail order division the sales increased from January of 1915?—A. From $4,500,000 to a peak of $13,668,000 in 1928, and down to $7,095,000 in 1933.

By Mr. Factor:

Q. So that the mail order business since 1928 has been gradually decreasing?—A. Yes.

By Mr. Ilsley:

Q. The most significant thing I should think is the drop between about 1920 and the present time; they are only doing about 50 per cent of the mail order business now that they were doing there; is that right?—A. That is right, yes.

By Mr. Sommerville:

Q. But the total sales, both retail and mail order, in 1915 were $14,081,000, and they have increased to a peak of $48,196,000 in 1929?—A. Yes.

Q. And for last year they were—?—A. $37,526,419.

Q. And the total sales for both mail order and retail stores for that 20 year period amounted to—?—A. $696,346,137.

By Mr. Factor:

Q. That is the part of the business reflected by the retail stores?—A. That is right, yes. There were only some of those statements printed.

Q. Have you any more of those, or have we got them all?—A. There are printed copies of it, sir.

The CHAIRMAN: Where are they?

The WITNESS: There is no No. 10.

By Mr. Sommerville:

Q. They are sorting the printed statement on the capital structure, and it will be up here in a few minutes. Now then, dealing with the memorandum regarding the capital structure and the bond issue, will you present that memorandum?

THE ROBERT SIMPSON COMPANY LIMITED AND SIMPSONS LIMITED

MEMORANDUM REGARDING CAPITAL AND BOND ISSUES

The initial authorized capital of The Robert Simpson Company Limited incorporated in 1896 consisted of 5,000 shares of a par value of $100 per share—$500,000. The entire capital issued to 1898 (1,375 shares) was acquired at that time by the late Mr. H. H. Fudger, Sir Joseph Flavelle and Mr. A. E. Ames. On Statement No. 7 is detailed the various additional issues up to 1917 when the outstanding capital consisted of:—

33,500 6 p.c. Preference Shares	$ 3,350,000
33,500 Common Shares	3,350,000

Of these shares 5,000 preferred shares and 26,033 common shares were issued as stock dividends. Since 1918 there has been no change in the capital structure of The Robert Simpson Company Limited. While most of the preference shares were issued to the public the common shares were held very closely and continued to be so held until 1925 when Simpsons Limited (1925) was incorporated to acquire these common shares.

In 1912 an issue of £462,500 ($2,250,833) 5 p.c. first mortgage bonds was sold to the public. This was the only issue of bonds of The Robert Simpson Company Limited and $1,375,222.66 of these bonds were still outstanding at 3rd January, 1934.

At 4th February, 1925 (at the time of the incorporation of Simpsons Limited (1925)), the outstanding bonds and shares of The Robert Simpson Company

Limited (exclusive of certain mortgages and bonds of subsidiary companies totalling $698,166) were as follows:—

5 p.c. First Mortgage Bonds	$ 1,852,059
6 p.c. Preference Shares	3,350,000
Common Shares	3,350,000

At that date, undistributed surpluses of the Company and its subsidiaries amounted to $4,752,743 equal to $142 per common share outstanding.

SIMPSONS LIMITED—(1925)

This Company was incorporated on 3rd March, 1925, and under an agreement dated 11th March, 1925, acquired all the outstanding common shares of The Robert Simpson Company Limited (33,500 shares with a par value of $100 each). It entered into no agreement with the latter Company—its dealings at this time were only with the holders of the common shares.

The consideration paid by Simpsons Limited to the former common shareholders of The Robert Simpson Company Limited was as follows:—

Cash—$150 per share	$ 5,025,000
100,000 no par value shares in Simpsons Limited (1925) on the basis of three for each one formerly held—*nominal* value	3,350,000
	$ 8,375,000

The cash was obtained by the sale of the Company's bonds, the details being:—

$5,600,000 $6\frac{1}{2}$ p.c. Sinking Fund Collateral Trust Gold Bonds, due 1st May, 1945. Secured by a specific first charge on the above mentioned common shares of The Robert Simpson Company Limited

These bonds were sold to underwriters at 90.

The balance sheet of Simpsons Limited (1925) as a corporation at the time of its organization is shown on Statement No. 8.

As indicated above the former shareholders of The Robert Simpson Company Limited as a body received, in addition to the cash consideration, 100,000 shares of Simpsons Limited for their 33,500 shares (approximately 3 shares for 1). The Company's officials state that some of these 100,000 shares were sold or donated by the former shareholders to department managers and other employees. The prospectus for the bond issue made at this time states:—

> "One of the primary purposes of this issue is to afford an opportunity for officers and department managers of the Company to secure a more important shareholding interest in the business. Simpsons Limited will comprise among its shareholders not only the present holders of common shares of The Robert Simpson Company Limited but also a number of the chief executives and managers of that Company."

The Secretary of the Company states that, as a result of these transfers by the former shareholders from 1925 on, no single individual had control of the Company. It will be noted that at this time the organization of the holding company did not directly affect The Robert Simpson Company Limited. There was an indirect effect, however, as the holding company could only pay its bond interest and sinking fund payments, amounting in the aggregate to $500,000 per annum, by dividends from the operating company, or at the rate of $15 per year on the 33,500 common shares of the latter company.

In 1928, funds were required for the Bay Street Extension to the Toronto Store. While this store was owned and operated by The Robert Simpson Company Limited, the financing was done by Simpsons Limited through an issue of $4,000,000 6 p.c. Cumulative Preference Shares, redeemable at 105. These shares were offered to the public at $100 per share. The total commissions and expenses in connection with this issue amounting to $170,934.20 were paid by The Robert Simpson Company Limited.

In February 1929 an additional issue of $3,000,000 of its 6 p.c. Cumulative Redeemable Preference shares was made by Simpsons Limited (1925) primarily for the construction of a new store in Montreal (the property of the John Murphy Company Limited, a company wholly owned by and conducting the Montreal business of The Robert Simpson Company Limited). This issue was also offered to the public at $100 per share and four months later it was redeemed at 105. Commission and expenses of this issue amounting to $121,255 were also paid by The Robert Simpson Company Limited.

In June, 1929, Simpsons Limited (1925) sold all its assets (with the exception of cash on deposit for sinking fund purposes) to a new company, Simpsons Limited (1929) for the following securities of that company:—

$10,000,000 6 p.c. 1st Mortgage Bonds
$10,000,000 6½ p.c. Preference Shares
120,000 Class "A" shares of no par value
120,000 Class "B" shares of no par value.

All the above, with the exception of the Class "A" shares, were then sold to underwriters for $20,000,000. Statement No. 9 shows that the proceeds from this sale, together with other funds available, were used in redeeming the bonds and preference shares outstanding of Simpsons Limited (1925), etc., and that the balance, $10,548,450, was distributed to the holders of 70,323 shares of the common stock of Simpsons Limited (1925) (on the basis of $150 per share). The holders of the remaining 29,677 shares received three shares of Simpsons Limited (1929) for each share of Simpsons Limited (1925) formerly held.

SIMPSONS LIMITED (1929)

This Company was incorporated on 22nd June, 1929, and as already stated, under an agreement dated 9th July, 1929, purchased from Simpsons Limited (1925) its holdings of the Common Shares of The Robert Simpson Company Limited and an advance made by it to the latter Company for construction purposes amounting to $4,600,829.13. The consideration for this was outlined above.

The securities so transferred to Simpsons Limited (1925) with the exception of the 120,000 Class "A" shares, were sold by it to underwriters for $20,000,000 (the par value of the bonds and preference shares) —the bonds were offered to the public at par. The preference shares were also offered at par but with a bonus of one share of the Class "B" stock with each five shares of Preferred and 20,000 of the Class "B" shares were required for this bonusing. The remaining 100,000 Class "B" shares represent the consideration received by the underwriters.

INVESTMENT IN THE SHARES OF THE ROBERT SIMPSON COMPANY LIMITED

As shown on Statement No. 10 the common shares of The Robert Simpson Company Limited were taken on the books of Simpsons Limited (1929) at the net book value of the shares			$20,460,485 09
Simpsons Limited (1925) had carried these same shares at a book value of (Statement No. 8)			8,375,000 00
Increase in book value of these shares			$12,085,485 09
Earnings of The Robert Simpson Company Limited and its subsidiaries between 4th February, 1925, and 26th June, 1929, in excess of dividends paid during that period accounted for			3,708,592 68
Difference			$ 8,376,892 41
Represented by—			
Appreciation in the values of the fixed assets as a result of two appraisals—			
(1) In 1925 when the fixed assets were written up in the books of the Constituent Companies by		$ 2,816,850 03	
(NOTE.—The appraisal in 1925 showed appreciation of $6,041,966.24 of which, however, only $2,816,850.03 was set up on the books of the Constituent Companies. This appreciations, however, was not reflected in the value assigned to the investment in the shares of The Robert Simpson Company Limited in the books of Simpsons Limited.)			
(2) In 1929 when the net book value of the assets was increased by appraisal appreciation of		5,903,850 09	
Total		$ 8,720,700 12	
LESS:			
(1) Balance of commissions and expenses in connection with issue of preference shares of Simpsons Limited (1925), etc., written off	$ 124,694 34		
(2) Difference between the value at which the shares of The Robert Simpson Company Limited was carried in the books of Simpsons Limited (1925) and the net tangible value of these assets (before appreciation of fixed assets) at 4th February, 1925	219,113 37		
		343,807 71	
			$ 8,376,892 41

LANDS, BUILDINGS and EQUIPMENT ACQUIRED FROM CONSTITUENT COMPANIES

Shortly after incorporation Simpsons Limited (1929) purchased certain of the lands, buildings and equipment of its constituent companies at their appraised value. As shown on Statement No. 10 the lands and buildings taken over at 26th June, 1929, had a book value of $10,778,859.32. Against this the debt of The Robert Simpson Company Limited to Simpsons Limited (1925) of $4,600,-829.13 referred to previously (which Simpsons Limited (1929) had taken over) was applied and the balance of $6,178,030.19 is shown on the Balance Sheet at that date as "Owing to Subsidiary Companies re properties transferred" (Statement No. 10). In the following year other properties having a book value of $1,808,311.70 were similarly transferred to Simpsons Limited (1929). This debt had to 3rd January, 1934, only been repaid to the extent of $2,475,498.45 and at that date the amount still owing in respect of these transfers was $5,510,843.44.

Simpsons Limited (1929) pays no interest on this debt to the constituent Companies, but the latter pay rentals to Simpsons Limited for the properties transferred. These rentals are at present $1,312,000 per year, or approximately 10 p.c. of the appraised values of the properties taken over. The operating companies also pay all taxes, ground rents, insurance and repairs on these leased properties. Depreciation provided on these properties by Simpsons Limited in 1933 amounted to $178,221, which is on the basis of 2 p.c. of the appraised values of the buildings and equipment. Deducting the depreciation

from the rental charge the net rental income to Simpsons Limited in 1933 is $1,133,779. If maximum depreciation rates allowed by the Federal Income Tax Department had been provided on these appraised values, the net income would have been reduced by approximately $200,000 or to $933,779.

This net rental is more than the interest charges on the funds actually contributed to the operating companies by Simpsons Limited (which as indicated later totalled approximately $7,700,000) and as a result the earnings of the operating companies are reduced and those of Simpsons Limited are correspondingly increased. Considering the organization as a whole, however, these property rentals do not affect the earnings, being eliminated in the consolidated statements.

Disposition of Funds Raised by Simpsons Limited

Simpsons Limited (1929) has contributed $7,695,637 directly to the operating companies; it has also paid approximately twice this amount to the former shareholders of The Robert Simpson Company Limited as shown in the following:—

Contributions to Operating Companies:—		
Cash—advances by its predecessor, Simpsons Limited (1925) to The Robert Simpson Company Limited and applied against properties transferred	$ 4,600,829	
Cash—payments on account of properties transferred	2,475,498	
Lands purchased and buildings constructed—(Mutual Street addition)	619,310	
		$ 7,695,637
Cash paid to former shareholders of The Robert Simpson Company Limited:—		
In 1925	$ 5,025,000	
In 1929 (through the winding-up of Simpsons Limited (1925))	10,548,450	
		15,573,450
		$ 23,269,087

The funds for these purposes were raised largely from the sale of its bonds and preference shares. As explained previously, its Class "A" shares were given to those former shareholders who still retained an interest in the business, and its Class "B" shares went to the underwriters of the other issues. Because of the various types of issues made, the income required from the operating companies for interest and dividends varies according to what dividends are declared.

At present no dividends are being paid on the preference shares of Simpsons Limited; in order to pay these dividends together with bond interest, income taxes, etc., it is necessary for the constituent companies to earn in addition to depreciation, interest charges on the bonds and dividends on the preference shares of The Robert Simpson Company Limited, still outstanding, approximately .... $ 1,500,000

Interest at 6½ p.c. (the dividend rate on the preferred shares) on the contributions made by Simpsons Limited to the operating Companies would amount to approximately	500,000
Balance, approximately	$ 1,000,000

which represents the approximate amount of interest charges on the securities issued in order to provide the funds paid to former Common shareholders of The Robert Simpson Company Limited and of Simpsons Limited (1925).

The basis of charging rent to merchandising and other departments (covering interest and depreciation) by the various operating Companies has not been affected by these capital reorganizations. The actual charges have increased only proportionately to the cost of additional buildings constructed and equipment used.

Comparative Consolidated Balance Sheets

On Statement No. 11 are shown the assets and liabilities in consolidated form of the Simpson organization for the nine years 4th February, 1925, to 3rd January, 1934.

The increase in the total assets during the nine years (Lands, Buildings and Equipment being included at their depreciated values) is:—

	At 4th February, 1925	At 3rd January, 1934	Increase
Totals per Balance Sheets	$ 19,802,873	$ 35,137,603	$ 15,334,730
Less: Appreciation of Fixed Assets included therein	2,816,850	8,720,700	5,903,850
Total Value of Assets, exclusive of appreciation	$ 16,986,023	$ 26,416,903	$ 9,430,880

and is due to an increase of $2,213,451 in the current assets and to the large investment which the companies have made in additional buildings, the chief of which were:—

1928-29 Bay Street extension to the Toronto Store
1930 Central Indoor Parking Garage
1929-31 New Montreal Store
1931 Addition to Mutual Street Building, Toronto.

The capital structure changed considerably during the period, and is summarized below:—

	At 4th February, 1925 Before the Reorganization	After the Formation of Simpsons Limited (1925)	At 3rd January, 1934
Bonds, Mortgages and Preference Shares of operating companies in the hands of the public	$ 5,900,224	$ 5,900,224	$ 4,725,223
Common Stock of The Robert Simpson Company Limited	3,350,000		
Bonds of Simpsons Limited		5,600,000	10,283,500
Capital Stock of Simpsons Limited—			
Preference Shares			11,250,000
Common Shares		5,372,737	
Common Shares, Class "A" and Class "B" Shares			5,061,314
Balance of Profit and Loss Account	4,805,887	....	725,819
	$ 14,056,111	$ 16,872,961	$ 32,045,856

Comparative Statements of Profit and Loss, Simpsons Limited and Constituent Companies

Statement No. 12 shows—

1. The annual earnings, both before and after depreciation, of the organization as a whole from the time of the incorporation of Simpsons Limited (1925) to 3rd January, 1934.
2. The charges against these earnings for interest and dividends on the bonds and shares of the constituent companies held by the public and for the bond interest of the holding company, etc., and—
3. The net profit or loss of the consolidation. The lower part of the statement shows how much of these profits have been paid out in dividends on the shares of Simpsons Limited.

Earnings Prior to 1925

From the time of the incorporation of The Robert Simpson Company Limited in 1896 to 1925, the operations of the Company and the subsidiaries which it acquired during that period, were very successful—the profits after depreciation, bond interest, income taxes, etc., amounting to..... $ 14,429,498
Dividends in that period were as follows—

Preference Shares—			
In Cash		$ 2,122,532	
Common Shares—			
In Cash	$ 4,450,923		
Stock Dividends—			
Preference Shares	500,000		
Common Shares	2,603,300		
		7,554,223	
			9,676,755
Balance of Surplus Account at 4th February, 1925, the date of the incorporation of Simpsons Limited (1925)			$ 4,752,743

EARNINGS 1925 TO 1933 INCLUSIVE

The annual profits of the consolidation, both before and after depreciation, (as shown on Statement No. 12), along with the percentages of these earnings to the net invested capital (*i.e.* bonds and shares outstanding less appreciation arising from fixed asset appraisals) are summarized below—

Year	No. of weeks	Amount of net invested Capital	Earnings — Before Depreciation: Amount	Before Depreciation: Per cent to net invested capital	After Depreciation as provided by the Company: Amount	After Depreciation: Per cent to net invested capital
		$	$	%	$	%
1924	53	14,056,112	2,541,652	18·1	2,019,812	14·4
1925	52	14,580,269	2,568,494	17·6	2,025,374	13·9
1926	52	15,251,932	3,168,993	20·8	2,592,313	17·0
1927	52	16,147,009	3,425,222	21·2	2,861,546	17·7
1928	52	20,905,851	3,621,975	17·3	3,048,385	14·6
1929	52	21,824,867	3,422,204	15·7	2,657,732	12·2
1930	52	24,507,271	3,277,687	13·4	2,501,012	10·2
1931	53	23,963,971	2,231,351	9·3	1,605,095	6·7
1932	48	23,467,133	679,278	2·9	114,660*	0·5
1933	52	23,325,156	1,826,607	7·8	1,223,458	5·2

*NOTE:—Depreciation was not provided by the Company for the year 1932. The profits shown $114,660 are after deducting $564,618 for depreciation which is the amount provided during 1932 but reversed at the year end.

The percentages of the earnings (after depreciation as provided by the Company) to the actual invested capital (*i.e.* without deduction for capital surpluses as was done above) are—

1924	1925	1926	1927	1928	1929	1930	1931	1932	1933
12·0%	11·6%	14·3%	15·1%	12·9%	8·7%	7·5%	4·9%	0·4%	3·8%

The operations of the various units of the organization will be referred to later. The Toronto Store has always provided the greater part of the earnings, although in the past four years its earnings have been considerably reduced. During this same period, the operations of the Mail Order Divisions have not been profitable, due to the very substantial reduction in Mail Order sales volume.

It will be noted that dividends on the preference shares of The Robert Simpson Company Limited have been maintained throughout the period. Dividends on all the common shares of that Company have been paid to Simpsons Limited since early in 1925 so that they do not appear in the consolidated statement. The net profits available for the shareholders of Simpsons Limited increased from $876,519 to a peak of $1,645,180 in 1928. In 1932 there was a net loss of $177,313, but the following year showed a net profit of $200,903.

The dividend record of Simpsons Limited is summarized as follows:—

SIMPSONS LIMITED (1925)

6 p.c. Preference Shares—paid in full from time of issue (1928 and 1929) to redemption in June 1929;

Common Shares paid \$2.50 per share in 1925; \$4 in 1926; \$5.00 in 1927 and 1928; \$1 in 1929.

SIMPSONS LIMITED (1929)

$6\frac{1}{2}$ p.c. Preference Shares—paid in full from time of issue to 1st February, 1932. No dividends paid since. The dividends on these shares are cumulative.

Class "A" shares—paid at the rate of \$2 per share in 1929 and 1930 and at \$1 per share in 1931. No dividends have been paid since 1931, and dividends on these shares are non-cumulative.

Class "B" shares—No dividends paid.

SIMPSONS LIMITED (1925) AS A CORPORATION

Statement No. 13 shows the Profit and Loss of Simpsons Limited (1925) as a Corporation, from the time of its incorporation in 1925 to the time of its winding up in 1929. The income of this Company was almost entirely derived from dividends received on the common shares of The Robert Simpson Company, Limited, which it owned. The chief expense was the interest on the \$5,600,000 bonds which it had issued.

The rate of dividend declared by The Robert Simpson Company Limited on its common shares and, hence, the income of Simpsons Limited, was, within wide limits, at the discretion of the directors of the latter Company. At no time did the balance of the Profit and Loss Account of this Company exceed \$250,000 in spite of the fact that the Profit and Loss Account of the consolidation had increased \$3,787,814 since the incorporation of Simpsons Limited. Thus nearly all of the earnings of the consolidation not required for bond interest and dividends was left with the operating companies.

SIMPSONS LIMITED (1929) AS A CORPORATION

Statement No. 14 shows the Profit and Loss of Simpsons Limited (1929) as a Corporation, from the time of its incorporation in 1929 to 3rd January, 1934. The income from this Company is derived from two sources:—

(1) Dividends on the common shares of The Robert Simpson Company Limited;

(2) Property rentals on lands and buildings receivable from four of the operating companies. Some of these properties have been constructed by Simpsons Limited (1929) but the greater part represents buildings formerly owned by the operating companies and transferred to Simpsons Limited (1929) at the time of its incorporation. The effect of these transfers on the operating companies has already been discussed.

Since 1931 no dividends have been declared on the shares of The Robert Simpson Company Limited.

The largest expense of Simpsons Limited (1929) is the interest on \$11,250,000 bonds issued by it which requires slightly more than \$600,000 per year. If

dividends are to be paid on the cumulative Preference shares, a further $731,250 is required, but, as mentioned above, these have not been paid since 1st February, 1932.

Statement No. 12 shows that the earnings of the consolidation, in excess of bond interest and dividends paid from the time of incorporation of Simpsons Limited (1929) to 3rd January, 1934, amount to $725,819. Simpsons Limited (1929) as a corporation, however, has a balance in its own profit and loss account of $974,731. Thus the holding company has been withdrawing slightly more than the combined earnings of its constituent companies.

A. Memorandum regarding capital and bond issues. The initial authorized capital of The Robert Simpson Company Limited incorporated in 1896 consisted of 5,000 shares of a par value of $100 per share—$500,000. The entire capital issued to 1898 (1,375 shares) was acquired at that time by the late Mr. H. H. Fudger, Sir Joseph Flavelle and Mr. A. E. Ames. On statement No. 7 is detailed the various additional issues up to 1917 when the outstanding capital consisted of:—

33,500 6 per cent preference shares..	$3,350,000
33,500 Common shares..	3,350,000

Q. Statement No. 7 is not printed?—A. Yes, it is sir.

Q. Statement No. 7 is attached to this?—A. Yes.

Mr. HEAPS: Of those two statements, have you any idea as to how much actual cash was put in the concern?

The WITNESS: It is shown on statement No. 7, which is being sorted now.

By Mr. Sommerville:

Q. But the original 1,375 shares of common stock— —A. Yes?

Q. —was bought by Mr. Fudger, Sir Joseph Flavelle and Mr. Ames?—A. Yes.

Q. At that date was there any preferred stock outstanding?—A. No.

Q. And subsequently preferred shares were issued?—A. In 1912 was the first issue.

Q. In 1912 preferred shares were issued to the public?—A. To the public and also to the common shareholders.

Q. And to the common shareholders?—A. As a bonus stock dividend.

Q. Just a moment. Preferred shares were issued to the public, and some preferred shares were issued to the common shareholders as a stock dividend?—A. Yes.

Q. The amount of the preferred shares issued to the public was how much?—A. 22,500.

Q. 22,500 shares?—A. Shares.

Mr. FACTOR: $100 each?

The WITNESS: Yes.

By Mr. Sommerville:

Q. We have statement No. 7 now. Now, with reference to the preferred shares, 2,000— —A. 2,250,000—

Q. Were issued to the public?—A. Yes.

Q. How much was given as bonus shares to the common shareholders?—A. It was a stock dividend of 5,000 shares.

Q. A stock dividend of 5,000 preferred shares?—A. Yes.

Q. What other disposition was made of the preferred shares?—A. In 1917, $600,000, 6,000 shares were sold to the public.

Q. So that the total number of preferred shares oustanding— —A. In 1917 was 33,500.

Q. Preferred?—A. Yes.

Q. Of that, 5,000 represented— —A. Stock dividends.

Q. To the common stockholders?—A. Yes.

Q. And the balance of preferred shares held by the public?—A. Yes.

Mr. FACTOR: What about that first mortgage in 1912?

The WITNESS: That was sold in 1912.

Mr. FACTOR: To the public?

The WITNESS: Yes.

By Mr. Sommerville:

Q. Then in addition to the preferred shares, there was sold to the public a first mortgage bond issue of $2,250,833?—A. Yes. This was the only issue of bonds of the Robert Simpson Company.

Q. Those bonds are still outstanding?—A. Yes, a portion. They are subject to a sinking fund provision, and some of them are redeemed each year.

Q. But there is a balance of them still outstanding?—A. 1,375,000.

Q. Are the preferred shares still outstanding?—A. Yes, they are.

Q. So that the present position is the 33,500 of preferred shares are outstanding in the parent operating company?—A. Yes.

Q. And bonds?—A. 1,375,000.

Q. Still outstanding in the parent company?—A. Yes.

Q. Now, the common shareholders having obtained 5,000 preferred shares, will you tell us what the common shareholders got by way of stock dividends during the next year—1925?—A. No change between 1917 and 1925, or until 1917 when the total number of outstanding common shares was 33,500, 26,033 of those had been issued as stock dividends.

Q. 26,033? Let us get this another way. The original 1,375 shares have grown to 33,500?—A. Yes.

Q. And that was not by the introduction of new capital?—A. Altogether.

Q. But 26,033 of those common shares had been issued as stock dividends? —A. That is right.

Mr. BELL: Doesn't it all go to the 1,375 here?

The WITNESS: No, there were new shareholders from time to time, and they were distributed to all the shareholders on record at the date of the distribution of the dividend.

Mr. SOMMERVILLE: They went to all the common shareholders who were on record at the time of each distribution?

The WITNESS: Yes.

By Mr. Factor:

Q. There were common shares sold to the public as well?—A. No.

Q. How were those additional shareholders of common stock created?—A. They were confined to a small group; they were not offered to the public.

Q. Actually there was cash invested in payment of those common shares by this small group?

By Mr. Sommerville:

Q. There may have been. As far as the company was concerned, the company issued no common shares for cash?—A. 7,467 shares paid for in cash.

Q. I beg your pardon?—A. 26,033 issued as stock dividends.

Q. Now, the shares that were issued as stock dividends went largely to the original holders of the 1,375 shares, did it not, or their successors in title?—A. Through their successors, yes. Shareholders have changed from time to time.

Q. That is to say, I understand about 1902, Mr. Ames sold his one-third interest and someone became the owner of them; who was that?—A. It was the Cox interests.

Q. So that the three principal owners were Mr. Fudger, Sir Joseph Flavelle and the Cox interest?—A. Yes.

Mr. Heaps: Before you go on with that part, I should like to know this: I am wondering what they paid for those 7,000 shares out of the 33,500 common shares?

By Mr. Sommerville:

Q. Mr. Heaps is asking what was paid for these 7,000 common shares bought from the company?—A. They had a par value of $100. and the amount of money which the company got was $746,700. I cannot tell what the three original members of the group paid to buy out the company, but the amount of money which the company got was $746,000.

Q. They got for 7,000 shares $746,000?—A. Yes.

Q. Which represented a little more than par?—A. No, exactly par.

Q. 7,000 shares?—A. 7,467 shares.

Mr. Bell: I wanted to find out, of that 1,375 shares, originally issued, what proportion of the 35,000 common shares went to those 1,375 shares, or in other words, did they get a bonus of stock in the same way as they did on the preference shares? How much common, in other words, did they get out of this $35,000.

The Witness: We can figure that out; I have not it worked out, but I can do it very quickly.

Mr. Young: They got about 20 to 1.

The Witness: It depends on the date of the stock dividend. Stock dividends were issued from time to time.

Mr. Sommerville: Stock dividends were issued every few years?

The Witness: There were five large stock dividends, 1903, 1905, 1907, 1910, 1912, 1917—six, really.

Mr. Factor: They received their proportion according to their holdings?

The Witness: Yes. The total proportionate to the shares outstanding.

Mr. Factor: The same as the others?

The Witness: Yes.

Mr. Sommerville: I think we can get that out in another way. You will find what the holdings are of those three interests at the time they sold out?

Mr. Bell: They got 5,000 shares of preference stock, didn't they?

The Witness: Yes.

Mr. Bell: At the same time. My question is did they get an equal amount of common shares as a bonus?

Mr. Sommerville: They got very large bonuses from time to time, or stock dividends from time to time?

Mr. Bell: Would they not get some consideration in regard to common shares at the same time as they did the preference?

The Chairman: The only way to answer that question would be, if the auditor would do it, to find out in 1925 the special interests of the common stock. They will work that out for us.

By Mr. Senn:

Q. May I ask one more question in that regard? In addition to the stock dividends issued, were there any cash dividends on the common stock?—A. Yes.

Q. Regularly paid?—A. Yes, every year.

Q. What per cent?—A. Ranging from 5 per cent up to 11½ per cent; that is, on the shares outstanding, not on the initial issued capital.

By Mr. Sommerville:

Q. On the amount outstanding at the time they received every year cash dividends from 5 to 11 per cent?—A. Yes.

Q. To 11 per cent?—A. On the total shares outstanding.

The CHAIRMAN: Common stock?

The WITNESS: Yes.

Mr. SOMMERVILLE: In addition to the stock dividends to which you have referred?

The CHAIRMAN: That is, the bonus stock that was issued one year, would bear next year a dividend of whatever the amount was?

The WITNESS: Yes.

The CHAIRMAN: Five per cent to 10 per cent?

The WITNESS: Yes.

The CHAIRMAN: It seems a reasonably profitable operation.

Mr. SOMMERVILLE: You are going to work out the amount of the original interest?

Mr. HEAPS: What was subsequently paid by the Cox interest for those common shares?

The WITNESS: That is a transaction between the shareholders, not a company transaction.

Mr. HEAPS: You do not know?

The WITNESS: No.

By Mr. Sommerville:

Q. It would be reflected in the books of the company?—A. No.

Q. Now then, you say that during that period the company had received $746,000 for its issued common stock?—A. Yes.

Q. And if the balance of the shares had been issued at par, it would have meant what?—A. You mean if the cash—

Q. Yes.—A. $2,603,300.60.

Q. So that another way of putting it is the shareholders received, in addition to cash dividends, stock dividends which at par had a value of $2,603,000?—A. Yes.

Q. Plus the dividends upon those stock dividends?—A. Yes.

Q. From year to year?—A. Yes.

Q. That brings us up to the year 1925?—A. Yes.

Q. What happened in 1925?—A. Of these shares, 5,000 preferred shares and 26.033 common shares were issued as stock dividends. Since 1918 there has been no change in the capital structure of the Robert Simpson Company, Limited. While most of the preference shares were issued to the public the common shares were held very closely and continued to be so held until 1925 when Simpson's Limited (1925) was incorporated to acquire these common shares.

In 1912 an issue of £462,500 ($2,250,833) five per cent first mortgage bonds was sold to the public. This was the only issue of bonds of The Robert Simpson

Company, Limited, and $1,375,222.66 of these bonds were still outstanding at 3rd January, 1934.

At 4th February, 1925 (at the time of the incorporation of Simpson's, Limited, (1925), the outstanding bonds and shares of the Robert Simpson Company, Limited, (exclusive of certain mortgages and bonds of subsidiary companies totalling $698,166) were as follows:

5 p. c. First mortgage bonds..	$1,852,059
6 p. c. Preference shares..	3,350,000
Common shares..	3,350,000

At that date, undistributed surpluses of the company and its subsidiaries amounted to $4,752,743 equal to $142 per common share outstanding.

Mr. Factor: How do you figure that out?

The Witness: There were 33,500 common shares outstanding.

Mr. Sommerville: This is surplus.

The Witness: Yes.

Mr. Sommerville: If that surplus were distributed to the outstanding common shares, it would represent a value of $142 per common share?

The Witness: Yes.

Mr. Factor: The common shareholders, however, are entitled to a division of the surplus, if distributed?

The Witness: Yes. Simpson's Limited (1925) was incorporated on the 3rd March, 1925—

Mr. Factor: Right here, may I just ask one question. The holders of the common shareholders were the original three?

The Witness: No.

Mr. Factor: And also the ones who invested the additional 7,460 odd shares?

The Witness: Interests had changed from time to time, transactions between shareholders themselves.

By Mr. Sommerville:

Q. At that time, 1925, can you tell us what were the holdings of the majority shareholders of the common shares—I think you had it this morning? —A. Approximately 50 per cent, slightly more than 50 per cent was owned by the Flavelle interests.

Q. A little over 50 per cent interest owned by the Flavelle interests?—A. And about 25 per cent by the Cox interests and the Fudger interests were very substantially reduced at that time; they were about 3,000 shares.

Q. And at that time theirs were 3,000 shares, less than 10 per cent?—A. Yes, and the others were small holdings.

Q. That is 85 per cent in those three?—A. Yes.

Q. Flavelle, 50 per cent?—A. A little more than 50 per cent.

Q. A little more than 50 per cent; the Cox interest was 25 per cent, and the Fudger about 10 per cent?—A. Yes.

Q. Or a total of 85 per cent held by the three interests?—A. Yes.

By Mr. Factor:

Q. How did Flavelle get over 50 per cent, by some internal transactions? —A. Transactions between the shareholders themselves.

Q. You have no record of that?—A. No.

Mr. SOMMERVILLE: And the remaining 15 per cent was small holdings of a number of different people?

The WITNESS: Yes.

By the Chairman:

Q. I should like to get clear on that point the standing of the shareholders as it was prior to the — —A. 1925?

Q. —1925 refinancing.—A. Yes.

Q. So that the 85 per cent interests represented by these three large groups of stockholders would be the ones who would control the refinancing?—A. Yes.

By Mr. Sommerville:

Q. Now then, what refinancing took place, or what took place in 1925, that affected the capital structure?—A. In 1925, Simpson's Limited (1925) was incorporated and acquired all the outstanding common shares of the Robert Simpson Company Limited, which was 33,500 shares. Then, Simpson's Limited entered into no agreement with The Robert Simpson Company Limited, its dealings at this time were only with the holders of the common shares. I shall read from the brief.

"This company was incorporated on 3rd March, 1925, and under an agreement dated 11th March, 1925, acquired all the outstanding common shares of The Robert Simpson Company Limited (33,500 shares with a par value of $100 each). It entered into no agreement with the latter company—its dealings at this time were only with the holders of the common shares."

Q. So that Simpson's Limited (1925), became the owners of the common stock instead of the original individual interests who held the stock?—A. That is right.

The CHAIRMAN: Became the holding company?

The WITNESS: Holding all the common shares of the Robert Simpson Company.

Mr. SOMMERVILLE: The operating company.

The WITNESS: The consideration paid by Simpson's Limited to the former common shareholders of The Robert Simpson Company Limited were as follows:—

Cash—$150 per share..	$5,025,000
100,000 no par value shares in Simpsons Limited (1925) on the basis of three for each one formerly held—nominal value..	3,350,000
	$8,375,000

Mr. SOMMERVILLE: The total consideration therefore paid was what?

The WITNESS: $8,375,000.

Mr. FACTOR: Where did you get the nominal value?

The WITNESS: That is the par value of the common shares of the Robert Simpson Company, 33,500 at $100.

By Mr. Heaps:

Q. Of those shares, 26,033 for which nothing was paid?—A. That is right; it represented stock dividends.

Q. No actual cash paid for that interest in the form of dividends?—A. Yes.

Q. For those shares?—A. It is cash dividend.
Q. They received $150 for par value shares at $100?—A. Yes.

By Mr. Sommerville:

Q. Then the net result of this operation was that the original shareholders of the original company got $5,025,000?—A. The shareholders in 1925 got that.
Q. The shareholders in 1925 had distributed among them $5,025,000 in cash?—A. Yes.
Q. And they still held all the shares?—A. Of the new company.
Q. Which owned all the shares of the old company?—A. That is right.
Q. In other words, their stock position was not changed in the slightest?—A. No.
Q. 85 per cent majority holdings still had an 85 per cent interest in the company thereafter?—A. Yes.
Q. And the 15 per cent minority holdings had 15 per cent thereafter?—A. There were transactions after the reorganization between the shareholders which changed that.
Q. The position as between the shareholders may have changed by some external arrangements, but the net position was that by this means $5,000,000 was withdrawn and distributed among the shareholders?—A. Yes.
Q. And of that $5,000,000, over 50 per cent went to Sir Joseph Flavelle and his interests?—A. His interests.
Q. His family interests, you mean by that?—A. Yes.
Q. 25 per cent to the Cox interests, and 10 per cent to the Fudger interest?—A. Yes.
Q. And the balance to the— —A. Minority holdings.
Mr. FACTOR: Why do you place a nominal value of $100,000 on the value of the original 33,500?

Mr. SOMMERVILLE: That is the par value.

The WITNESS: That is the value assigned to them on the company's books.

Mr. KENNEDY (*Peace River*): The net result is they have both the $5,000,000 in cash and the same control as before?

By Mr. Sommerville:

Q. As Mr. Kennedy asked, was not the net result this. They withdrew $5,000,000 in cash and had exactly the same control as they had before?—A. Yes.
Q. Then, Simpson's Limited (1925) not having any money, it being a new company, and not having any assets except the common shares, where did they get the $5,000,000?—A. It sold bonds, par value—
Q. To the public?—A. Yes, 5,600,000.
Q. $5,600,000 worth of bonds? Were these bonds secured by any real estate?—A. No.
Q. Were there any fixed assets?—A. None.
Q. Upon which the bonds were given?—A. None.
Q. They were bonds issued against common shares?—A. That is right.
Q. And these common shares were the common shares of the— —A. Robert Simpson Company.
Q. The operating company?—A. Yes.
Q. And its common shares in the operating company were already subject to a first mortgage bond issue and preferred shares outstanding?—A. Yes.
Mr. FACTOR: You are going a little too fast, Mr. Sommerville. I thought all the common shares were owned, or 85 per cent of them, were owned by these three interests?

Mr. SOMMERVILLE: Yes; and then they turned them over to the new company, the holding company, you see.

Mr. FACTOR: I see; they turned them over subject to the charge.

Mr. SOMMERVILLE: Yes.

The WITNESS: Sinking fund.

By Mr. Sommerville:

Q. The common shares they turned over would be subject to the liabilities of the company that issued the common shares. In other words, by this operation, Mr. Adamson, the parent companies financing was not affected in any way?

Q. Its stock structure was not changed?—A. No.

By Mr. Factor:

Q. In other words, the owners of common shares got $5,600,000 from the public on the security of their holdings in the common shares subject to the prior obligations?—A. $5,600,000 was not realized on the sale of these bonds, only $5,000,000 cash.

Q. That was on the common fixed assets?—A. Of the operating company.

Q. Or the real estate?—A. Of the operating company.

By Mr. Kennedy (Winnipeg):

Q. What was the amount of the bond issue?—A. $5,600,000.

By Mr. Heaps:

Q. Who issued it, was there not some nationally known firm that issued the bond?—A. Wood Gundy.

Mr. KENNEDY (*Winnipeg*): The amount received was $5,600,000.

By Mr. Sommerville:

Q. Just a minute now, one at a time, please. On the sale of $5,600,000 of bonds they received for the bonds $5,025,000?—A. Yes.

Q. In other words, this operation cost $525,000?—A. $575,000 was the difference.

Q. That is right, $575,000?—A. Between the face value of the bonds issued and the amount of cash actually received.

By Mr. Edwards:

Q. What was the interest allowed on that issue?—A. 6½ per cent.

Q. It was a 6½ per cent issue sold at 90?—A. Sold to the underwriters at 90.

Q. And the underwriters were Wood Gundy?—A. Yes.

By Mr. Senn:

Q. There was some sinking fund provision on those bonds?—A. Yes.

By Mr. Sommerville:

Q. Then the net result of that operation was that the operating company remained just as it was, without any change in its asset position?—A. Yes.

Q. The shareholders incorporated themselves under the new company?—A. Yes.

Q. They had exactly the same holdings in the new company, and withdrew five million?—A. Yes.

Q. And expended another $575,000 to accomplish that purpose?—A. Yes.

Mr. FACTOR: And gave the public a charge on the assets to that amount?

By Mr. Sommerville:

Q. A charge on the equity that remained in the assets?—A. Yes, secured by specific trust charge on the common shares of Robert Simpson Company Limited.

Q. What was the next financing operation of that company?—A. I think we might go on with this statement, and we will come to that.

As indicated above the former shareholders of The Robert Simpson Company Limited as a body received, in addition to the cash consideration, 100,000 shares of Simpson's Limited for their 33,500 shares (approximately 3 shares for 1). The Company's officials state that some of these 100,000 shares were sold or donated by the former shareholders to department managers and other employees. The prospectus for the bond issue made at this time states:—

> One of the primary purposes of this issue is to afford an opportunity for officers and department managers of the Company to secure a more important shareholding interest in the business. Simpson's Limited will comprise among its shareholders not only the present holders of common shares of The Robert Simpson Company Limited but also a number of the chief executives and managers of that Company.

The Secretary of the Company states that, as a result of these transfers by the former shareholders from 1925 on, no single individual had control of the Company.

By the Chairman:

Q. Of which company?—A. Simpsons Limited 1925.

Q. The holding company?—A. Yes.

It will be noted that at this time the organization of the holding company did not directly affect The Robert Simpson Company Limited. There was an indirect effect, however, as the holding company could only pay its bond interest and sinking fund payments, amounting in the aggregate to $500,000 per annum, by dividends from the operating company, or at the rate of $15 per year on the 33,500 common shares of the latter company.

By Mr. Sommerville:

Q. Now then, was not the result of this financing to impose upon Simpson's Limited, 1925, an annual obligation of $1,500,000?—A. Yes.

Q. They have no other sources from which to get this revenue, except by way of dividends on the common stock of the operating company?—A. That is right.

Mr. Factor: That was the security.

By Mr. Sommerville:

Q. Yes, that was the security. And that meant that in order to get enough revenue the operating company had to pay the holding company $15 per share per year, and that was on the common stock?—A. Yes.

Q. And that was an obligation on the part of the operating company then to pay 15 per cent dividends on the common shares?—A. Yes.

Mr. Factor: Let us get this right: do you mean there was an agreement entered into between the company and its common shareholders?

By Mr. Sommerville:

Q. No, no; I will clear that up in a minute now. There was no agreement between the operating company and the holding company that they would pay 15 per cent?—A. No, they owed the shares.

Q. But the holding company owns the shares of the operating company, and as the owners of the shares of the operating company, they controlled what the operating company would pay?—A. Yes.

Q. And the holding company could not discharge its obligations unless it got $15?—A. That is right.

Q. And the people who would pay the $15 were the same people as those who would receive it?—A. Yes.

Mr. FACTOR: Supposing the operating company could not earn $15 per share.

Mr. SOMMERVILLE: It was just too bad for the bondholders of the 1925 company; is not that the situation?—A. That is the situation.

Q. If the operating company did not pay 15 per cent per annum on these shares, then the holding company would not have the income and therefore would have to make a default upon its bonds, or else borrow the money from some place?—A. It was the only source of income.

Q. As a matter of fact, what did happen; did the operating company pay this $15 per share per year?—A. Yes.

Q. Or 15 per cent per year until 1929?—A. Yes.

By Mr. Factor:

Q. Did they actually earn that much?—A. More than that.

Mr. ILSLEY: $15 per what, did the shares have a par value of $100?

Mr. SOMMERVILLE: There was no change in the shares of the operating company, the shares did not change. They had to pay $15 a share on the shares they had outstanding.

The CHAIRMAN: Of the common stock.

By Mr. Sommerville:

Q. Then, having made this bond issue, perhaps you will tell us what was the next feature in the financing of the holding company?—A. Possibly I had better continue this statement:—

> In 1928, funds were required for the Bay Street Extension to the Toronto Store. While this store was owned and operated by The Robert Simpson Company Limited, the financing was done by Simpson's Limited through an issue of $4,000,000, 6 per cent Cumulative Preference Shares, redeemable at 105. These shares were offered to the public at $100 per share. The total commissions and expenses in connection with this issue amounting to $170,934.20 were paid by The Robert Simpson Company Limited.

Mr. SENN: Which company was this in addition to?

By Mr. Sommerville:

Q. This is Simpson's Limited, 1925, the holding company, which issued the preference shares?—A. Yes.

Q. And the only assets which it possessed at the time were these same common shares which were under bond?—A. Yes.

Q. And against these assets they issued four million 6 per cent accumulatvie preference shares?—A. Yes.

Q. And they provided that these will be redeemable at 105?—A. Yes.

Q. And they sold them to the public at 100?—A. They were sold to the public at $100 per share; they were sold through the underwriters.

By the Chairman:

Q. Who were they?—A. Wood Gundy & Company.

By Mr. Factor:

Q. Let us get that clear; was that the only security behind this 1925 issue of common shares of the operating company?—A. Yes.

Q. That was then a fourth charge, if I can put it that way; there was the first mortgage bonds, then the original 6 per cent preference shares, then the $6\frac{1}{2}$ per cent preference shares, and now the four million cumulative preference?—A. In this time, between these two periods, the operating company was making substantial profits, so that their assets were increasing all the time.

By Mr. Sommerville:

Q. And the value of the common shares had increased by reason of the increase in the value of the operating company?—A. Yes.

Q. Or rather, by reason of the increased earnings of the operating company?—A. Yes.

Q. And they capitalized on this—not in the actual sense—but they issued a further capital issue against these increased earnings?—A. Yes.

By Mr. Factor:

Q. But would not the sinking fund collateral gold bonds have a prior claim on the assets of the Robert Simpson Company?—A. Yes.

By the Chairman:

Q. Have you a copy of the prospectus?—A. Yes, I have; but I would like to have this one back as it is the only one which is available now.

By Mr. Heaps:

Q. Is that the 1928 prospectus?—A. That is 1925, I will give you 1928.

By Mr. Senn:

Q. I would like to know just what annual charges there were against these assets at the time this 1928 issue was made; you have already spoken about the issue of sinking fund collateral trust gold bonds?—A. There is a dividend on the preference shares of the Robert Simpson Company.

Q. These bonds constitute a liability of $15 per annum on these shares; can you tell us how much extra there was on these other two—the first mortgage bonds?—A. That is the first.

By Mr. Sommerville:

Q. I think what Mr. Senn wants to know is, there were 5 per cent first mortgage bonds outstanding in 1925 to an amount of— —A. $1,852,059.

Q. That is, there is an amount of $1,852,059 outstanding at this time of first mortgage 5 per cent bonds.

Mr. SENN: How much would that amount to by way of an annual cash payment?

Mr. SOMMERVILLE: That would amount to, let me see.

Mr. FACTOR: That is not a fair way of calculating it, because the first mortgage bonds and the preference shares were a prior charge on the assets of the operating company, were they not?

By Mr. Sommerville:

Q. No, no. In addition to that what was the amount outstanding of 6 per cent cumulative preference shares?—A. $3,350,000.

Q. Yes, and all of these amounts were outstanding at the time of the 1925 financing?

Mr. SENN: Yes, but the company had to earn dividends on that as well as the 15 per cent.

Mr. SOMMERVILLE: Yes; it had to earn first of all its bond interest, then it had to earn its cumulative preference dividend rate, had to set aside its depreciation, it had to take care of all other expenses, and whatever was left would be the net profit; and that net profit had to be sufficient to pay $15 a share to the 1925 company, otherwise the 1925 company would have been in default on its bonds.

Mr. HEAPS: It was really a gamble on the earning capacity of the company.

Mr. SOMMERVILLE: Was that all it was?

Mr. HEAPS: Perhaps it was not a very good one, from the investor's point of view.

By Mr. Sommerville:

Q. At any rate, that four million of preference shares was issued and it cost the operating company $170,934.20?—A. Yes.

Q. Although it was issued by Simpsons Limited, the holding company?—A. Yes.

Q. I presume the reason for the operating company paying the cost was because Simpsons Limited, the holding company, was advancing this money to the operating company for that purpose?—A. That is right.

Q. All right. That is the first expense we find against the operating company?—A. Referring to the statement again:—

> In February, 1929, an additional issue of $3,000,000 of its 6 per cent Cumulative Redeemable Preference shares was made by Simpsons Limited (1925) primarily for the construction of a new store in Montreal (the property of the John Murphy Company, Limited, a company wholly owned by and conducting the Montreal business of The Robert Simpson Company Limited). This issue was also offered to the public at $100 per share and four months later it was redeemed at 105. Commission and expenses of this issue amounting to $121,255 were also paid by The Robert Simpson Company Limited.

Q. To whom was that paid?—A. Largely to the underwriters.

Q. The underwriters were Wood Gundy & Company again?—A. Yes.

Q. This would cover the legal expenses?—A. All the expenses in connection with the issue.

Mr. ILSLEY: Is there anything wrong with that, the operating company paying these expenses?

By Mr. Sommerville:

Q. I would not think so; why would not it be a legitimate charge on the operating company since they were getting the money out of this issue?—A. It was part of the cost of the money.

Q. The situation may be a little changed when one sees how much they paid to redeem it the very next year. That is the expense then of the second preference issue, $121,255; that made up to that time on the part of the 1925 company a total issue of securities of five millions in bonds and seven millions in cumulative preference shares?—A. Yes.

Q. And its only assets against these were the common shares it held, plus the advance of money which it had made to the operating company?—A. Yes.

By Mr. Factor:

Q. Or, to put it another way, Mr. Adamson, is it fair to say that the total of the bonds, shares and securities outstanding was $17,802,059; against all

the assets of the Simpson Companies. I included in that the original first mortgage bonds of $1,852,000, the six per cent preference shares?—A. These would be reduced each year, they would not be the same as in 1925.

Q. Oh, sure; but as against all the assets of the Simpson Companies—fixed assets, real estate, operating company, etc.—there were altogether outstanding as liabilities in the form of bonds, shares, etc. an amount of $17,802,000, subject to these amounts being varied through the reduction in the amount of the mortgage?—A. That is approximately the figure.

By Mr. Sommerville:

Q. I observe that these bonds, the 1925 issue referred to, these 6½ per cent sinking fund collateral gold trust bonds—?

The CHAIRMAN: Now, might I interject a question here, this is not perhaps quite what you are on, but I have in my hand a prospectus of the issue of $3,000,000 of Simpsons Limited 6 per cent cumulative preference shares—I do not see the date.

Mr. SOMMERVILLE: Here it is, at the back, it is dated February 25, 1929.

The CHAIRMAN: On the back of this prospectus a financial statement at the head of which is, Simpsons Limited and constituent companies, consolidated balance sheet, as at January 30, 1929. Now, under the assets I notice for instance (I am just giving round numbers) merchandise amounting to eight million; accounts receivable three million; other assets of different kinds, the whole making up a total of 12 million; and the capital assets, land buildings and equipment as at February 1st, 1928 is shown at 13 million, giving 16 million odd; making a total in round figures, of $35,000,000.

Mr. FACTOR: Is that the total assets, $35,000,000?

By the Chairman:

Q. Yes. Now, the question I would like to ask is this: other than the ownership of the common shares of the Robert Simpson Company, Limited, is there any direct claim on the part of Simpsons Limited on the assets to which you have referred?—A. No, not up until 1929, the time of the second re-organization.

Mr. ILSLEY: They made that clear by using constituent companies making it a consolidated balance sheet.

The WITNESS: Yes, a consolidated balance sheet.

The CHAIRMAN: As a matter of fact, Simpson's, Limited, have no control over the assets?

Mr. SOMMERVILLE: Yes.

The CHAIRMAN: Or claim upon them other than ownership of the common shares of the Robert Simpson, Company, Limited?

The WITNESS: No, but that is the control.

The CHAIRMAN: That is the control?

The WITNESS: Yes.

Mr. FACTOR: I think the fair way to present this picture is to show at first the total assets, $35,000,000 owned by these companies and the total outstanding bond and share obligations of $17,800,000.

Mr. ILSLEY: I suppose they show that on the other side?

The CHAIRMAN: No, they do not.

Mr. FACTOR: Mr. Stevens describes it this way: it shows the assets of all the constituent companies, and apparently the holders of those obligations have no direct claim in those assets. I do not think it is quite fair to mention that.

Mr. Ilsley: They say "constituent companies."

The Witness: That is a consolidated balance sheet of all the companies, they say, which is Simpson's, Limited, and constituent companies.

Mr. Factor: The total assets are $35,000,000.

The Witness: And all liabilities and all capital outstanding eliminating inter company—

Mr. Factor: It would show the picture if the total assets were shown as $35,000,000 as against total capital obligations of $70,000,000.

Mr. Sommerville: No, they are more than that.

Mr. Factor: I am not talking about the direct liabilities; I am talking about the issue of bonds and shares.

The Witness: Later, there are other statements showing the comparative balance sheet from year to year over the ten years. We can get the information from that.

Mr. Heaps: You have not got the value of the assets?

By Mr. Sommerville:

Q. Yes, we will deal with that. Now, in order to reach the valuation necessary for the financing of the 1925 company, was there a new appraisal made?—A. An appraisal was made in both 1925 and in 1929?

Q. And the appraisal in 1925 gave an increased appraisal value of how much?—A. The assets were actually only written up by $2,800,000, although the appraisal indicated a value substantially greater than that.

Q. In other words, for the purpose of the 1925 financing, the assets were written up just $2,800,000?—A. Yes.

Q. The balance of the appraisal was subsequently written up in 1929?—A. 1929.

Q. We will come to that later?—A. Yes.

By Mr. Factor:

Q. What does this expression mean; what is written up?—A. An appraisal was made of the lands, buildings and equipment, and the value on which they were carried on the books of the company was increased by the difference between the then book value and the appraised value.

Mr. Sommerville: Mr. Factor was not here on Monday.

Mr. Factor: It is an arbitrary increase? Was there some fixed basis?

The Witness: The appraisals are made by appraisal companies.

Mr. Heaps: Who was the company which made this one?

The Witness: I have that here.

Mr. Nash: It was scientifically done, item by item.

Mr. Edwards: Replacement value?

The Witness: The name of the appraisal company will be in the prospectus.

Mr. Factor: I mean, Mr. Chairman, the statement goes out to the public that the assets are written up, and the ordinary public gets the impression that a certain gentleman, who is the appraiser, just changes a figure from one figure to a higher figure.

Mr. Sommerville: No; we had all that threshed out on Monday here.

The Chairman: We spent hours on it.

Mr. Sommerville: We had a long discussion on that Monday, when the question of appraisals came up. In that case the company underwriting the issue required the appraiser to give them an appraisal on replacement value new.

Mr. ILSLEY: Yes.

Mr. SOMMERVILLE: That was the basis he gave, and the question of appraisal is dependent entirely upon the basis.

Mr. FACTOR: That was Burns and Company?

Mr. SOMMERVILLE: Yes.

Mr. FACTOR: In this case it was not replacement value new, but the assets were written up only $2,000,000.

The WITNESS: It was depreciated appraised value.

Mr. FACTOR: In other words, on a certain scientific basis?

The WITNESS: Yes.

Mr. FACTOR: That appraisal companies have for writing them up?

The WITNESS: Yes.

By Mr. Sommerville:

Q. Then, in 1929, the issue that was sold to the public in February cost the public $121,255?—A. Yes.

Q. And it provided for the redemption of the preferred shares at $105?—A. They were cumulative, redeemable preference shares, the same as the previous shares.

Q. That was in February?—A. Yes.

Q. As a matter of fact, these shares were redeemed in June of 1929 by the new financing?—A. Yes.

Q. And the five per cent on the $3,000,000 redeemed in June, 1929, cost the company an additional $150,000 to redeem?—A. Yes.

Q. Plus cumulative interest in the meantime?—A. Yes.

Q. At the same time, in June, 1929, an issue of $4,000,000 of preference shares issued in 1928 were redeemed?—A. Yes.

Q. And they were five per cent redeemable?—A. Yes.

Q. And it cost them $200,000 to redeem them?—A. Yes.

Q. So that the cost of those two financing operations in 1928 were, expenses for the first $170,934.20, redemption within 15 months, $200,000, expenses of the second issue of $3,000,000, $121,255, and cost of redemption within three months $150,000?—A. Yes.

Q. Or a total of $642,189.20?—A. That is right.

Q. That was the entire cost of the money that was obtained in 1928 and 1929?—A. Yes.

Q. And that was paid back when a certain new financing operation took place in June, 1929?—A. Yes.

Mr. FACTOR: Cost of redemption, you mean $5 extra?

Mr. SOMMERVILLE: $5 extra together with the interest of six per cent paid on the cumulative preferred shares as well; they were oustanding?

The WITNESS: Yes.

Mr. SOMMERVILLE: Then we come to June, 1929; what took place?

The WITNESS: In June, 1929, Simpson's, Limited, (1925) sold all its assets (with the exception of cash on deposit for sinking fund purposes) to a new company, Simpson's, Limited, (1929) for the following securities of that company:—

$10,000,000 6 p. c. 1st mortgage bonds.
$10,000,000 $6\frac{1}{2}$ p. c. preference shares.
120,000 class "A" shares of no par value.
120,000 class "B" shares of no par vlaue.

All the above, with the exception of the Class "A" shares, were then sold to underwriters for $20,000,000.

By Mr. Factor:

Q. What do you mean by the term "assets," the charge they had against the common shares of the operating company—A. Their assets consisted of the common shares of the Robert Simpson, Company, and advances which had been made to the operating company to finance these extensions referred to a few minutes ago.

Mr. Ilsley: Bills receivable

The Witness: Yes.

Mr. Sommerville: Monies advanced

Th Witness: Yes, the securities. The securities which the 1925 company received for its assets were: \$10,000,000 of six per cent first mortgage bonds; \$10,000,000 of 6½ per cent preference shares; 120,000 class A shares, and 120,000 class B shares of no par value.

Q. That was what the 1929 company received the twenty million on?—A. Yes.

Q. From the underwriters?—A. Yes.

Q. And the underwriters were?—A. Wood Gundy.

Mr. Heaps: Do you know who the directors of the company were at this time, who was the President.

The Chairman: In the 1928 prospectus I see that the Directors are given as: Sir Joseph Flavelle, Bart., Chairman of Board; Charles L. Burton, Vice-President; William G. Morrow, David H. Gibson, J. Ellsworth Flavelle, Harris H. Fudger, President; Herbert C. Cox, James H. Gundy, John E. Goldring, Frank Y. McEachren.

Mr. Heaps: Have you got them for 1929?

Mr. Sommerville: For 1929 the Directors were, for Simpsons Limited 1929 —and they were also the directors of the operating company—C. L. Burton—

The Witness: Those are the present directors.

Mr. Sommerville: I have not got the directors for 1929.

The Chairman: The directors as indicated at the time of the reorganization in 1929 apparently were: Sir Joseph Flavelle, Bart., Chairman of Board of Directors; Harris H. Fudger, President; C. L. Burton, Vice-President; Herbert C. Cox, William G. Morrow, John E. Goldring, David H. Gibson, J. Ellsworth Flavelle, James H. Gundy, Frank Y. McEachren, and Frank Hay, Secretary.

Mr. Heaps: Practically the same as in 1925.

The Chairman: Practically the same.

Mr. Heaps: They were responsible for the reorganization proceedings.

By Mr. Sommerville:

Q. Yes. When you are talking of the directors after the re-financing of Simpsons Limited in 1929, the directors were—?—A. C. L. Burton, D. H. Gibson, J. H. Gundy, A. J. Mitchell, Sir Herbert Holt, S. Johnston, Mr. H. H. Bishop and Mr. H. G. Colbrook. Mr. Colbrook did not come in until after that. Those are the present directors. At that time Mr. A. T. Snell was a Director. H. H. Fudger was Chairman of the Board.

Q. Since deceased?—A. Yes.

Mr. Kennedy (*Peace River*): How much was made by selling these to the bond holders.

By Mr. Sommerville:

Q. Now then, we come to the question of the financing of this 1929 company. The operating company for this purpose turned over certain buildings and fixed assets to the holding company?—A. Yes.

Q. And the holding company is the owner of these lands, buildings and fixed assets; together with its common shares, and together with the money which it had advanced; then it issued to the old company, that is Simpsons Limited of 1925, certain securities?—A. Yes.

Q. And the securities which it issued were $10,000,000 of 6 per cent first mortgage bonds?—A. 6 per cent.

Q. And $10,000,000 of 6½ per cent preference shares?—A. Yes.

Q. And 120,000 Class A shares?—A. Yes.

Q. And 120,000 Class B shares?—A. Yes.

Q. And the Class A shares went to—?—A. The underwriters for $20,000,000.

Q. And what was the basis at which the underwriters took them, was it 90?

By Mr. Factor:

Q. Might I ask this question: did the new company, Simpsons 1929 own all of the assets of the operating company?—A. The 1925 company owned the common shares of the operating company, the Robert Simpson Company, and the 1925 company sold its assets to the 1929 company, so that in effect the 1929 company owned the common shares of the Robert Simpson Company.

By Mr. Factor:

Q. But did not Mr. Sommerville say they transferred real estate and fixed assets? –A. That was in addition to the common shares the 1925 company owned; part of the real estate, lands, buildings and equipment.

By Mr. Sommerville:

Q. That was a subsequent transaction?—A. The 1925 company did not actually own any real estate, it was part of the transaction at that time, the 1929 company would acquire from the operating company some of it lands and buildings.

By Mr. Factor:

Q. Not all of it?—A. No.

By Mr. Sommerville:

Q. So that the operating company still continued to operate and it does operate to-day?—A. Yes.

Q. It did part with certain of its land and buildings?—A. Yes.

Q. To the new 1929 company?—A. Yes.

Q. And the new 1929 company then received assets from two sources: one source was the operating company that gave them lands and buildings, the other was the 1925 company that gave it common shares?—A. Yes.

Q. Plus the amount owing by the operating company to—?—A. Simpson's 1925 company.

Q. And these two sources supplied the assets that entered into the new 1929 company?—A. Yes.

By the Chairman:

Q. And for that they paid the 1925 company how much, twenty million?—A. They paid them: $10,000,000 of 6 per cent first mortgage bonds; $10,000,000 of 6½ per cent preference shares; 120,000 shares Class A no par value, and 120,000 Class B shares no par value of Simpson's Limited, 1925. They sold these securities to the underwriters.

Q. Well, carry that through?—A. For $20,000,000. Statement No. 9 shows exactly what money was received, how it was disposed of.

Q. Just give it to us briefly now, and we will go into it in detail later?—A. Statement No. 9 shows the proceeds from the sale of these securities together with other funds available which were used in redeeming the bonds and preference shares outstanding of Simpson's Limited, 1925.

Q. How much is that?—A. The bonds were $5,024,800, on which the premium was $200,992, making a total of $5,225,792. The preference shares were par value $7,000,000 with a premium of $350,000; or a total of $7,350,000.

Q. Yes? And the balance?—A. And the balance, $10,000,000: In addition to the redemption of the bonds and the preferred shares there were other small disbursements to retire by The Robert Simpson Western Limited, bonds to the par value of $80,000, on which the premium was $2,400; making a total of $82,400. Then there was a dividend on the common shares to Simpson's Limited, 1925, of $150,000.

By Mr. Sommerville:

Q. Wait a minute: they paid out then to the shareholders?—A. The common shareholders.

Q. The common shareholders of Simpson's Limited, 1925, a dividend of $150,000?—A. Yes. Then there was the payment of incorporation and other expenses of Simpson Limited, 1929, which amounted to $149,089.

Q. Yes?—A. And balance of funds turned over to Simpson's Limited, 1929, $56,663. They deducted this payment from the $20,000,000 received from the sale of securities, plus the cash on deposit for the redemption of the collateral trust gold bonds, and the proceeds from 30,969 Class A shares sold to employees; and the interest on funds on deposit of $30,000, there remained $10,548,450, which was distributed to the holders of 70,323 shares on a basis of $150 per share.

Q. That is to say $10,548,000 was distributed among some of the shareholders of the 1925 company?—A. Yes.

Q. And the shareholders who received that cash of $10,000,000 were those who held 70 per cent of the common stock of the 1925 company?—A. Yes.

Q. And they were the majority interests that have been referred to; and at that time what were the holdings of the majority interests?

By the Chairman:

Q. That was the same group who got the $1,500,000 distribution out of the 1925 company?—A. The shareholdings had changed from time to time, it was not exactly the same.

Mr. SOMMERVILLE: It was the same grouping.

By Mr. Factor:

Q. Who were the principal shareholders?—A. About 38 per cent were held by the Flavelle family.

By the Chairman:

Q. And who were the others?—A. Approximately 7,400 shares by the Fudger family, and the others were more widely held.

Q. The Cox interest had been distributed?—A. They still had some holdings.

By Mr. Sommerville:

Q. Perhaps you can give us some of the larger holdings apart from the Flavelle interest; who had the control?—A. No one had the control, because there were 100,000 shares and the largest shareholder had only 38,000.

Q. Yes, that was in the 1925 company?—A. That was in the 1925 company.

Q. Well, the largest was Sir Joseph Flavelle, his interest was 38.000 shares?—A. Yes.

Q. And then 7,000 was the Fudger interest?—A. Yes.

Q. And then who else?—A. The Canadian Securities and Land Corporation, 2,000.

By the Chairman:

Q. Who were they?—A. I could not tell you who they were; I think the Secretary of the Company can probably tell you. We could get that.

Q. Have you the name of the firm in which the Cox holdings are now held? —A. I could not answer that in the meantime. The Canadian Securities and Land Corporation—

Q. Is that the Cox interest?—A. No, I will look that up for you.

Q. I was thinking it was—they just transferred the Cox interest in their name.

The CHAIRMAN: Now gentlemen, it is one o'clock, I think at this point we had better go and strengthen the inner man.

The Committee adjourned at 1.05 p.m. to meet again this day at 3.30 o'clock p.m.

AFTERNOON SESSION

The Committee resumed at 3.30 p.m.

The CHAIRMAN: Order gentlemen.

The examination of Mr. G. Adamson resumed.

By Mr. Sommerville:

Q. Now, Mr. Adamson, we have reached the point where you say that $10,548,450 was distributed to the holders of the 70,323 shares of common stock of Simpson Limited of 1925?—A. That is right.

Q. These same shareholders had already received $150 a share on their holdings in the Robert Simpson Company Limited?—A. Not exactly the same shareholders, but the shareholders.

Q. The group?—A. Yes, the group.

Q. In other words, the shareholders who sold to the 1925 company received $150 per share cash?—A. Yes.

Q. And also all the common shares?—A. Yes.

Q. Then, when they received all the common shares they got 3 shares of new stock in the 1925 company for each share that they formerly held?—A. That is right.

Q. And when they came to sell these shares in 1929 they got $150 a share for each of the shares which they held in the 1929 company?—A. 70,100 shares then outstanding.

Q. 70,000 of those shares received $150?—A. Yes.

Q. And the 70,000 represented the majority group?—A. Yes.

Q. In other words, the giving of three shares for one at that time really resulted a few years later in their getting $450 for what they had already drawn $150 on?—A. That is right, yes.

Q. And the net result was that in the four years' operation, if you take it on the basis of the 33,000 shares of common stock which were outstanding when the 1925 company was organized, they received $600 a share; those of them who owned the 70,000 shares?—A. Yes.

Mr. KENNEDY (*Peace River*): How does it happen that some were left out in the cold?

Mr. SOMMERVILLE: I will come to that.

The WITNESS: There were transactions in the meantime.

By Mr. Sommerville:

Q. Then the question arises, how does it happen that some of the shareholders received \$150 cash while others of them only got stock when the distribution was made in 1929; will you explain that to the committee?—A. The shareholders who got cash were the 70,323 shares who dropped out of the company at that time.

Q. Yes?—A. The remaining 29,667 shares received shares in the new Simpson 1929 company, on the basis of three for one; they represented the management of the company.

By Mr. Factor:

Q. What happened to the shareholders who dropped out?—A. They were paid off.

Mr. Heaps: Did they retire voluntarily?

Mr. Sommerville: They retired themselves apparently by this process—

Mr. Heaps: They milked the cow.

Mr. Sommerville: And left her dry—oh, no.

The Witness: They sold bonds and stocks to Simpsons 1929 in order to raise the money to retire the bonds, stocks and shares of Simpsons 1925, and to pay for these 70,000 shares.

By Mr. Factor:

Q. You are not overlooking the fact that they got paid for their 70,000 shares a bonus of 150 per cent?—A. \$150 per share amounted to around ten million dollars.

Q. In other words, the payment of \$150 per share to the 70,323 shares, amounted to—?—A. It amounted to \$10,548,000.

Q. Was in payment of their holdings of this number of shares?—A. Yes.

Q. So, on receipt of this \$10,548,000 odd they retired from the company?

By Mr. Heaps:

Q. Who were those who retired?—A. The Flavelle interests.

Q. The people who retire, that had the 70,000?—A. The Flavelle interests, the Fudger interests, the Cox interests, and Mr. Goldring's interests.

By Mr. Sommerville:

Q. Have you the proportions that each held?—A. Yes.

Q. This Flavelle interests had—?—A. 37,965 shares.

Mr. Heaps: What does that mean by way of dollars and cents?

Mr. Sommerville: You can take it at \$150 a share.

By Mr. Bell:

Q. How many thousand were there?—A. 37,965 shares.

By Mr. Sommerville:

Q. That amounts to \$5,700,000 to the Flavelle interests?—A. 7,396 shares of the Fudger interests.

Q. Approximately \$1,200,000?—A. Yes. The Cox interests 14,176 shares.

Q. Yes, approximately \$2,100,000?—A. And the qualifying 6,261 shares.

Q. Yes, approximately \$900,000?—A. Yes. At that time there were also about 2,400 shares held by trustees, representing shares set aside as a trust by the former shareholders in order to pay pensions of old employees; there were 2,400 shares registered in the name of that trust.

Q. And were these paid for in cash?—A. No.
Q. The trustee shares?—A. Oh, yes, they were.
Q. Paid for in cash?—A. Yes.

Mr. HEAPS: Perhaps it might be interesting now to put on record the amount the same interests received in the 1925 split-up.

Mr. SOMMERVILLE: Yes, now let me see, I want to get this.

Mr. ILSLEY: I would suggest before you do that that you might get some evidence as to who selected the persons who were to get cash, and the ones who were to get shares.

Mr. SOMMERVILLE: Perhaps that should be ascertained from the ones who actually got the shares.

Mr. ILSLEY: Yes.

Mr. SOMMERVILLE: Now, this 70 per cent interest got the 120,000 Class A shares.

Mr. FACTOR: I thought Mr. Adamson explained just a moment ago that this 70 per cent of the shareholders nearly received payments for their shares in the company at the rate of $150 a share.

Mr. SOMMERVILLE: Yes.

The WITNESS: The figures which I quoted are the shareholdings prior to the time that they were paid.

By Mr. Factor:

Q. You mean, in the 1925 company?—A. Yes.

By Mr. Sommerville:

Q. But these 70.323 shares, were these merely paid at the rate of $150 per share?—A. Yes.
Q. And leased all their interest in the company?—A. Yes.
Q. By the surrender of their shares to the company?—A. Yes.
Q. Will you follow that through. It was the new company, the 1929 company that issued these securities?—A. Yes.
Q. It was the old company then that had these securities?—A. Yes.
Q. The 1925 company?—A. Yes.
Q. Then the 1925 company having these securities in its possession liquidated?—A. Yes.
Q. Wound itself up?—A. Yes.
Q. In doing so they paid off certain—?—A. The bonds and shares of the 1925 company.
Q. The bonds of $5,600,000 of the 1925 company?—A. Yes.
Q. And the seven millions of preference shares of the 1925 company, and certain other small obligations?—A. Yes.
Q. And it left for liquidation the sum of $10,548.000; plus 120.000 shares of Class A stock?—A. That is right. It is all shown in statement No. 9.
Q. These assets, cash and shares, were then available for distribution among all the shareholders of the 1925 company?—A. Yes.
Q. And by some arrangement among them 70 per cent of the shareholders took cash?—A. That is right.
Q. And got all the cash, amounting to $10,000,000?—A. Yes.
Q. And the other 30 per cent took all the shares?—A. They took 89,031 of the shares, three for one.
Q. Three for one, that is the situation.

Mr. ILSLEY: The rest did not sell.

By Mr. Factor:

Q. Was that voluntary on the part of the 29,000 odd shareholders?—A. I do not know.

Mr. ILSLEY: It must have been.

By Mr. Sommerville:

Q. It must have been acceptable to them at any rate?—A. Yes.

Q. Now then, these 30 per cent represented the management, inside the operating company?—A. Yes.

Q. That is a fact?—A. Yes.

Q. And they represented the group who were in the management, the inside operating company, who were then taking over control of the operating company?—A. That is right.

Q. In other words, to get control they were willing to take shares rather than cash?—A. Yes.

Q. And those who had been in control, the Flavelle, Fudger and Cox interests, then passed out of the picture?—A. Yes.

Q. Now, that is the net result of that transaction?—A. Yes.

Q. And in passing out of the picture they realized upon their holdings in the Simpson companies up to that date?—A. Yes.

Q. And it left them— —A. That is, all their common share holdings; they may have holdings of preference shares.

Q. They still hold the 5 per cent preferred shares which had been given to them as a stock dividend back in 1912.

By Mr. Ilsley:

Q. If I may suggest one thing, that in the assets that were distributed in this way, were included \$1,548,450, being the proceeds from the sale of 30,969 Class A shares to employees at \$50 a share?—A. That is right; that is, 89,031 shares were issued to the management, and the others, the 30,969 make up a total of 120,000.

Q. Part of the \$10,548,450 that went to the Flavelle and other majority interests consisted of \$1,500,000 which came from the employees at \$50 a share?—A. Yes.

By Mr. Sommerville:

Q. The employees were among the others who obtained Class A shares in the 1929 company?—A. Yes.

Q. And they were solicited, doubtless, to take shares in that company, and paid \$50 a share?—A. Yes.

Mr. ILSLEY: There were two classes of people got these Class A shares; there were the employees, who got them at \$50 a share; and there were the minority shareholders who took them as part of their share on the distribution of the assets in the liquidation of the company.

By Mr. Sommerville:

Q. Yes. The minority interests that took shares, however, were in the 1925 company and got three for one?—A. Yes.

Q. They must have accepted them as being worth \$150 a share when the majority shareholders were getting \$150 a share in cash?—A. Yes.

By Mr. Factor:

Q. What happened to the first mortgage bonds and the original 6 per cent preference?—A. They were paid off out of the proceeds of the bonds and preference shares issued by the 1929 company.

Q. Is that shown in this statement?—A. That is shown in statement No. 9, the first part of the statement shows the cash that came in, the $20,000,000; and the second part of the statement shows how it was disbursed.

By the Chairman:

Q. It might be a good point to identify some of these holdings. Take the Class A stock?—A. Held by the management and employees.

Q. They bought this?—A. Yes.

Q. What did they pay for them?—A. The management got three shares for one, they had 29,677 shares of the 1925 company representing the minority interests; they exchanged these for 89,031, on the basis of three for one for the 1929 company.

Mr. SOMMERVILLE: And that meant that they took these shares out on the basis of $50 a share, that is, the Class A shares.

The CHAIRMAN: Have you got any record of the market value of these shares to-day?

By Mr. Sommerville:

Q. They are quoted regularly?—A. Yes.

Q. What is the quotation to-day on Class A shares?—A. I think it is $7.00 or $8.00 a share.

Q. Is that Class A or Class B?

The CHAIRMAN: From $7.00 to $8.00.

Mr. SENN: I think Class A shares are quoted at $12.00, Class B shares at from $7.00 to $8.00.

The WITNESS: I have not the figures here.

The CHAIRMAN: We can get that.

By Mr. Factor:

Q. Mr. Chairman, if you have finished your question, I just wanted to find out what had happened to the buyers of the bonds and shares that were liquidated—I can see what part of this $20,000,000 went for, but I was wondering about the $5,600,000 of sinking fund collateral gold bonds?—A. At that time there were only $5,024,800 outstanding.

Q. What has happened to the original first mortgage bonds and the 6 per cent preference shares?

Mr. SOMMERVILLE: They have never changed.

The WITNESS: They are still outstanding.

By Mr. Factor:

Q. So this new issue of twenty million is still subject to the first mortgage bonds and preference shares?—A. In the meantime some properties have been transferred to Simpsons Limited. In the period between 1925 and 1929 substantial extensions to buildings and equipment have been made, and in 1929 the Simpson Limited Company took over some of the properties of the Simpson Company Limited.

Q. What is the balance owing on these two issues now that is still outstanding, there is the first mortgage bond on the operating company?—A. The first mortgage bonds on the 3rd of January, 1934 amounted to $1,375,000.

Q. And the preference shares?—A. $3,750,000.

Q. That is still outstanding on the operating companies?—A. Yes.

By Mr. Kennedy (Peace River):

Q. What is the expense in connection with the floating of this twenty million?—A. The underwriters received $10,000,000 bonds and $10,000,000

preference shares, and 120,000 Class B shares for $20,000,000. It is whatever they sell this 120,000 shares for.

By Mr. Sommerville:

Q. The underwriters' profit on the transaction was the 120,000 shares of Class B?—A. Yes.

Q. And whatever price they sold the Class B at would represent their profit on it?—A. Yes.

Mr. ILSLEY: They gave away 20,000 of them as a bonus, that leaves 100,000 for them.

By Mr. Sommerville:

Q. They gave 20,000 to the purchasers of the preferred stock, and that left 100,000 for themselves?—A. Yes.

By Mr. Factor:

Q. Has that been disposed of to the public yet by the underwriting company?—A. I do not know.

By Mr. Sommerville:

Q. Were not some of them sold to the public?—A. Some have been sold.

Q. Do you know the price at which they were offered?—A. No, I do not.

Q. Has there been any substantial portion of them transferred, do you recall, from the books of the company?

Mr. NASH: We would not know, because the registers are not kept by the company.

Mr. SENN: What are the Class B shares standing at?

By Mr. Sommerville:

Q. First of all, let us get the standing of the 1929 company; you had $10,000,000 bonds?—A. Yes.

Q. Then 120,000 Class A shares?—A. Yes.

Q. And there was a distinction as between the Class A shares and the Class B shares—let us have that evidence developed—any dividends paid on Class B?—A. $3.00 per share on Class A, but they are non-cumulative.

Q. But there must be $3.00 a share paid on them before any dividend is paid on Class B?—A. Yes, that is the distinction; but they carry equal voting rights.

Q. And both Class A and Class B have equal voting rights?—A. Yes.

Q. Have the preferred shares any voting rights?—A. Only when the dividends are in arrears.

Q. That would give the holders of the Class B shares a large voting power in the company?—A. Yes.

Q. So that the Class B shares with their very large voting power might possibly control the company?—A. Not with the Class A.

Mr. FACTOR: Can you tell me from your record what the Flavelle's received from the company since they made their original investment.

Mr. HEAPS: Perhaps if you could let me have the information I wanted about the 1925 statement now it would give the information Mr. Factor is asking for.

By Mr. Sommerville:

Q. Yes, that would give us the information. Now, Mr. Adamson, can you tell me what the original investment of 1,375 shares produced when the distribution of the 1925 company was actually completed in 1929. If not, perhaps

you could give it to me on one share then?—A. For every one share, the original issue was 1,375 shares.

Q. The original outstanding issue, yes?—A. Up until 1902, in 1902 there were 5,000 shares, all of which had been paid for in cash.

Q. Had been paid for in cash at par?—A. Yes. Prior to that date no stock dividends had been paid, so that each 5,000 shares—

Q. Now, wait a minute till I get this; 5,000 shares were issued to the same people as held the 1,375 shares?—A. Yes, that is correct.

Q. So that at that time the total investment on the 5,000 shares was $500,000?—A. That is right.

Q. That was in 1902, for the whole group?—A. Yes.

Q. Now then, tell us what happened after that?—A. On each of these 5,000 shares slightly more than 4 common shares were issued as stock dividends to 1917.

Q. Up to 1917 there had been an issue of better than four for one?—A. Yes.

Q. In stock dividends?—A. Yes.

Q. In addition to their cash dividend?—A. Yes.

Q. Up to 1917; what happens after that?—A. They got $150 per share for each share held in 1925.

Q. In 1925 they got $150 for each share held, which meant—with four added to the original one—that they got $750 for each original share, or better?—A. Yes, approximately.

Q. In cash?—A. Yes.

Q. And at that time they received as well as large holdings in the company as they formerly held?—A. Yes.

Q. So that their withdrawals at that time amounted to $750 a share on the original shares?—A. Yes.

Q. And they retained their ownership in the same proportion?—A. Yes.

Q. Now, what did they receive in dividends in the meantime; can you tell me that?—A. I can give you the rate of dividends, and the total amount of dividends—but not on these particular shares.

Q. Then, if you will give us the rate of dividends for each year? Perhaps before going through the dividends we might follow through the actual shares, Up to the 1925 company they had five shares?—A. In place of their original one.

Q. Five shares in place of their original one?—A. Yes.

Q. And then when the 1925 company was formed they got 3 for 1?—A. Yes.

Q. That meant 15 shares?—A. Yes.

Q. For the original 1?—A. Yes.

Q. They had drawn out then $750 per share?—A. Yes.

Q. And they had 15 shares for each 1 of the original shares held of the 5,000?

Mr. Factor: Mr. Sommerville, could we get at the figures; in 1902 there were 5,000 shares issued on an investment of $500,000. I wonder if Mr. Adamson can tell us what that investment of $500,000 had brought to the investors at the end of 1929?

Mr. Sommerville: That is just what I am trying to get by shares. He is having difficulty in segregating it because other people bought shares in the meantime, and I am trying to limit it to single shares.

The Witness: It will take a few minutes to work it out and check it. I would like to make sure of the figures.

Mr. Sommerville: All right, Mr. Adamson, just work it out.

Mr. HEAPS: Mr. Sommerville, you have the amount they received in 1925 for that reorganization.

Mr. SOMMERVILLE: $150 per share.

Mr. HEAPS: There was a $5,000,000 item that was divided amongst the majority of shareholders.

Mr. SOMMERVILLE: Everybody got them.

Mr. HEAPS: I thought you might now obtain the exact figures that each of the shareholders obtained.

Mr. SOMMERVILLE: He can only give it to you in single shares because you see that was the distribution among themselves when the company was liquidated.

Mr. HEAPS: That is the 1925 company?

Mr. SOMMERVILLE: Yes, that was the 1925 company; they paid them for handing in their shares.

Mr. HEAPS: And that was $5,000,000.

Mr. SOMMERVILLE: $5,000,000 plus 3 for 1.

The WITNESS: I would like to check those figures before I give them to you. Some of the shares were disposed of in the meantime and I would like to eliminate those.

By Mr. Sommerville:

Q. Even if you eliminate those how can that change the situation?—A. Some of those shares, the interests of the shareholders in 1925 were changed by 1929 because some of the shares were sold to other persons.

By Mr. Ilsley:

Q. Mr. Adamson, assume the case of a man who got one share in 1902 for which he paid $100?—A. Yes.

Q. Assume that the gentleman followed that share through till 1925 when he got his cash, then he had 5 shares?—A. Yes.

Q. By 1925?—A. Yes.

Q. And for which he got $150 apiece, which made $750?—A. Yes.

Q. And he also got 5 other shares which he exchanged for 15 shares?—A. Yes.

Q. And those 15 shares he sold in 1929 for $150 apiece which is $2,250; the $2.250 plus the $750 makes $3.000 which he got in 1929 for an original investment of $100 with his cash dividends every year in the meantime?—A. Yes.

Q. That is the whole story is it not?—A. Yes.

By Mr. Factor:

Q. Then on that basis can you figure out what the Flavelle interests, say, received?

Mr. SOMMERVILLE: On that basis you can figure out what any shareholder received who had his holdings throughout.

Mr. ILSLEY: Yes.

By Mr. Sommerville:

Q. Then that is equivalent to 30 for 1?—A. Yes.

Q. Par value, plus dividends?—A. Yes.

Q. Now then, what were the dividends received?—A. The dividends received were:—

	Percentage
1903	6
1904	6
1905	5
1906	5
1907	6
1908	6
1909	8
1910	6
1911	6
1912	2
1913	8
1914	8
1915	6
1916	9
1917	10
1918	10
1919	11
1920	11½
1921	7½
1922	10
1923	10
1924	10

Q. Yes? These were on each share. If the holdings at 1917 were 5 for 1 and the dividend declared was 10 per cent it is equivalent to 50 per cent dividend on the original investment?—A. Yes. In addition to that there were the bonds and preferred shares.

Q. Yes, and these preferred shares were issued as bonus shares to the same group?—A. As stock dividends.

Q. I beg your pardon, as stock dividends?—A. Yes.

Q. To the original holders?—A. Yes.

Q. And by the way are they still held by the same interests?—A. I do not know who the preferred shareholders are at the present time.

Q. You do not know who the preferred shareholders are at the present time?—A. No.

Q. But they are the preferred shares of the operating company?—A. Yes.

Q. Now, in the setting up of the balance sheet for the financing of the 1929 company with its $20,000,000 issue, what write-up or appreciation was there in the assets of the company?—A. The 1925 company or the 1929?

Q. In connection with the financing of the 1929 company. We already had the fact that the appraisal value was increased $2,816,850 in 1925?—A. Yes.

Q. Although the appraisal showed a larger amount?—A. Yes.

Q. Now, what happened in 1929 with the same assets?—A. The same assets plus the extensions in the meantime were written up by $5,903,850.

Q. That was in addition to that which was added in 1925?—A. Yes.

Q. So that the total appraisal appreciation for both those operations of 1925 and 1929 amounted to $8,720,700?—A. That is right.

Q. Then added to that were the surpluses of the company amounting to $8,460,743?—A. The surplus from 1925 to 1929 was $3,708,000.

Q. The surplus for the four years?—A. Yes. The surplus for 1925 was around $4,700,000.

Q. In these four years the surplus accumulated amounted to $3,708,000?—A. That is right.

Q. And that made a total of $8,640,000, which together with $8,000,000 of appraisal write-up made a total of $17,181,000?—A. Yes, that is taking both appraisals and surplus together for both reorganizations.

Q. For both reorganizations, and they actually got cash from the public against these for about $15,573,000?—A. They first got cash from the sale of the 1925 company securities which were then redeemed, and then the bonds and shares of the 1929 company were sold.

By Mr. Heaps:

Q. Have not we got the book value of these physical assets of the company in the same period?—A. Yes.

The CHAIRMAN: It shows here on this statement, land, buildings, and equipment.

The WITNESS: Statement No. 11.

The CHAIRMAN: And it shows in 1929 as $16,850,000, that is after the $3,000,000 new building had been erected I think. Then the next year, 1930 it shows at $21,600,000. That is the occasion when the write-up occurred.

Mr. HEAPS: That is as the result of the appraisal?

The CHAIRMAN: Yes.

Mr. HEAPS: That shows the book value.

By the Chairman:

Q. That is the reflection of the new appraisal to which you have referred, Mr. Adamson?—A. Between 1929 and 1930. The dfference between the $16,-000,000 and $21,000,000 is largely new buildings. The effect of the appraisal write-up was to wipe out the reserves for depreciation rather than adding it to the cost of the assets.

By Mr. Heaps:

Q. Was there much difference between the book value of the company's assets and that of the appraisal?—A. It was $5,900,000; the difference between the assets prior to the 1929 write-up and the book value was $5,900,000.

Mr. SOMMERVILLE: You were asking for information respecting the appraisal. The prospectus shows the Canadian Appraisal Company made it and they made it on the basis of depreciated value.

By Mr. Factor:

Q. Mr. Adamson, as of the 3rd of January, 1934, the total assets, according to Statement No. 11, are $35,137,000 odd?—A. That is right, of which $8,-720,000 is represented by the amount by which the assets were increased as the result of the appraisal.

Q. Yes, and against those assets there is an issue of $20,000,000?—A. That is on the next page.

Q. Oh yes, and liabilities?—A. There were $3,000,000 of current liabilities, statement 11, page 2, $3,000,000, and $1,375,000 of Robert Simpson Company, bonds outstanding.

By Mr. Sommerville:

Q. Operating company?—A. Yes, $3,350,000 preference shares.

Q. Of the operating company?—A. Yes, and bonds of Simpson's, Limited, amounted to $9,127,600, and $1,556,000 of Series B bonds issued subsequent to the 6½ per cent bonds.

Q. By Simpson's, Limited?—A. Yes, by Simpson's, Limited.

Q. Yes?—A. And there were the preference shares of Simpson's, Limited, 1929, $11,250,000, and the 120,000 class A and 120,000 class B shares.

Q. Those class A and class B shares are given a value of $5,000,000?—A. Yes.

Q. That is represented by the amount of the appreciation of the appraisal, is it not, approximately?—A. It is partly represented by that.

Q. Now, if you will go on with your memorandum respecting Simpson's, Limited, 1929 I think we will get the complete story.—A. On page 5—

Q. You had quoted page 3, but we have discussed matters that are referred to on page 4 showing appraisal appreciation. Now then, page 5.

Mr. KENNEDY *(Winnipeg)*: What page, Mr. Sommerville?

Mr. SOMMERVILLE: On the memorandum.

The WITNESS: Shortly after incorporation Simpson's, Limited, (1929) purchased certain of the lands, buildings and equipment of its constituent companies at their appraised value. As shown on statement No. 10 the lands and buildings taken over at 26th June, 1929, had a book value of $10,778,859.32. Against this the debt of the Robert Simpson Company, Limited, to Simpson's, Limited, (1925) of $4,600,829.13 referred to previously (which Simpson's, Limited, (1929) had taken over) was applied and the balance of $6,178,030.19 is shown on the balance sheet at that date as "owing to subsidiary companies re properties transferred" (statement No. 10).

By Mr. Sommerville:

Q. Yes. In the balance sheet of the new 1929 company then there is shown an amount owing to subsidiary companies of $6,178,000?—A. Yes.

Q. And that is the consideration for the buildings taken over less the amount which they had already advanced on those buildings?—A. Yes. In the following year other properties having a book value of $1,808,311.70 were similarly transferred to Simpsons Limited (1929). This debt had to 3rd January, 1934, only been repaid to the extent of $2,475,498.45 and at that date the amount still owing in respect of these transfers was $5,510,843.44. That is, the Robert Simpson Company—

Q. It owed to the operating companies this amount of money?—A. Yes.

Q. For the balance on certain buildings which it had taken over?—A. Yes.

Q. And which it had not paid for in any way?—A. Yes, to the extent of $5,510,843.44.

By Mr. Factor:

Q. So that Simpsons Limited are now owners and have the title to part of the real estate of the company?—A. Yes.

Q. And who has the title to the remaining real estate?—A. The Robert Simpson Company.

Q. The operating company?—A. Yes.

Q. It is still in their name?—A. Yes.

By Mr. Sommerville:

Q. Now we will see perhaps the reason for this.

The WITNESS: Simpsons Limited (1929) pays no interest on this debt to the constituent company, but the latter pay rentals to Simpsons Limited for the properties transferred. These rentals are at present $1,312,000 per year, or approximately 10 per cent of the appraised values of the properties taken over. The operating companies also pay all taxes, ground rents, insurance and repairs on these leased properties.

By the Chairman:

Q. That will be a charge then— —A. Against the operating companies.

Q. —against their merchandising account?—A. Yes.

By Mr. Ilsley:

Q. It is a big rent, is it not?

By Mr. Sommerville:

Q. First of all, they get no interest from the holding company on the money owing to them?—A. That is right.

Q. Secondly, they pay all the carrying charges of the property?—A. Yes.

Q. Taxes?—A. Yes, and insurance.

Q. Insurance?—A. Yes, and repairs.

Q. Yes, and interest on the mortgages?—A. There are no mortgages; there are ground rents.

Q. Ground rents, and after paying all of these then they pay a rental additional of $1,312,000 per year to the— —A. Simpsons Limited.

Q. To Simpsons Limited, the holding company?—A. In respect of these properties.

Q. And, therefore, Simpsons Limited have this income with which to pay their obligations on their bonds and on preference shares to the extent of $20,000,000 that have been issued?—A. Yes.

Q. Now, apparently an increased rent is paid by the operating companies on the appraisal value?—A. Yes.

Q. And this appraisal value was appreciated by some $8,000,000?—A. That is all the properties; that is not the particular property referred to as Simpsons Limited.

Q. Roughly, what did the increase in the appraisal values represent in this case?

Mr. Edwards: Is not this more particularly the addition to Simpsons Limited?

Mr. Sommerville: No, no.

Mr. Edwards: The new part through to Bay Street?

Mr. Sommerville: This is the whole building.

By Mr. Sommerville:

Q. Well, the operating company then pay this increased rental, and that rental whatever it is goes into the cost of operation of the operating company?—A. It comes out of the operating companies, yes.

Q. And adds to their operating costs?—A. Yes.

Q. And must be carried as part of their fixed obligations of their business?—A. Yes.

Mr. Factor: That all depends if the stores are owned. You have not given us the details of the real estate that was transferred to Simpsons Limited.

By Mr. Sommerville:

Q. Now, the real estate that was transferred was in use by the operating company?—A. Yes.

Q. And the operating companies must make a profit big enough to cover the rentals on the buildings which were so transferred?—A. Yes.

Mr. Ilsley: Mr. Factor wants to know what stores these are. Is it substantially all their stores?

The Witness: It is all their stores, yes.

By Mr. Factor:

Q. All their stores were transferred to the holding company?—A. The balance of them except one part of the old Toronto store which is still owned by the Robert Simpson Company Limited.

By Mr. Sommerville:

Q. Perhaps you would be good enough to identify the buildings that were transferred, if you can.—A. There is quite a long list.

By Mr. Kennedy (Winnipeg):

Q. Is it the self contained part that is still owned by the old company?—A. Yes. It is one particular part of the Toronto store.

By Mr. Edwards:

Q. What is that, the Yonge Street property?—A. That is one of them.

By the Chairman:

Q. Could you turn, Mr. Adamson, to page 4 and see on that plan if we could identify the property?—A. I cannot identify it definitely, but it is the Yonge Street frontage of the Toronto store which is owned by the Robert Simpson Company.

Q. Would it be the part designated as 1872 and 1895?

By Mr. Heaps:

Q. What is meant by the front of the Yonge Street store, how far back does that go?—A. From Queen to Richmond Street, and it goes back, I would say, about half way between Bay and Yonge Street.

By Mr. Edwards:

Q. It is the old building?—A. Yes, it is the old building.

Mr. SOMMERVILLE: Well, we have the idea generally.

By Mr. Ilsley:

Q. What about the Halifax store?—A. The other buildings are owned by Simpsons Limited.

By Mr. Sommerville:

Q. The Halifax store?—A. Yes, and the Regina.

Q. Then at that rate the only building that is retained and owned by the operating company is the old building on the Yonge Street frontage?—A. Yes.

Q. The merchandising buildings, does that include the mail order house?—A. Yes.

Q. The remainder of the buildings then were transferred to Simpsons Limited?—A. Yes, or have since been constructed by them.

By. Mr. Ilsley:

Q. Just to make this concrete—and perhaps that is not necessary—take for instance the Halifax store, this is the story, is it not, that Simpsons Limited took a deed of the Halifax store and did not pay for it so that this operating company, whether it be the Robert Simpson Company Limited or the Robert Simpson Eastern Limited owes a substantial sum of money to Simpsons Limited, as a creditor to the extent of a substantial sum of money, a creditor of Simpsons Limited?—A. Yes.

Q. And Simpsons Limited does not pay any interest on that?—A. That is right.

Q. To the operating company?—A. That is right.

Q. But it charges the operating company rental at a very high rate?—A. Yes.

Q. For the Halifax store. I am taking the Halifax store as an example?—A. Yes.

Q. The result of that is, in the operating of the Halifax store it is burdened with a very high rental which it pays Simpsons Limited, but it does not get the benefit of the interest on the money which Simpsons Limited owes it?—A. Yes.

Q. That is the story, is it?—A. Yes.

By Mr. Sommerville:

Q. The result is, that it owns these buildings and it owns the common stock of the operating company?—A. Yes.

Q. And its sole source of income is either from the rentals from these buildings or the dividends on the common shares?—A. That is right.

Q. Of the Robert Simpson Company, Limited, the operating company?—A. That is right.

Q. And that means that the operating company must make profits necessary to pay the holding company the moneys required by the holding company to pay off their obligations?—A. If they pay them off.

Q. If they pay them off, that is, if they are to meet the interest upon the $10,000,000 of bonds and the $10,000,000 of preferred shares the only source from which it can come is from the operating company?—A. That is right.

Q. Either by way of rental or by way of profit?—A. That is right.

By Mr. Factor:

Q. Then if the rental is reduced, just for the sake of argument, the dividends or earnings on the common shares would be increased?—A. That is right.

Q. Which would also go to the limited company?—A. That is right. Taking all the companies as one, as a consolidation, the rentals have no effect at all, because they are income in the one company and expenses in the other company—

By Mr. Ilsley:

Q. I suppose it is more a question of the operating company making more money in its operation, is it?—A. No, I would not say that; the rent which is charged to the operating companies has not been increased on account of these rental charges.

By Mr. Sommerville:

Q. No, but it goes into the operating expenses.—A. It goes into the operating expenses of the company, but not the expenses of the departments of the company, the merchandising company.

Q. Quite, but it has to be spread as part of the overhead of the company?—A. Not of the departments but of the company itself.

Q. But in any event the departments are charged an arbitrary figure for overhead expense, overhead and management of the company?—A. Yes.

Q. And that figure will be in there somewhere?—A. Not the rentals, no. The amount which is charged to the departments does not include this rental charge in total.

Q. As rental?—A. The basis of charging rent to the departments has not been changed since the properties were transferred.

Q. I quite appreciate that rental as rental is charged to the departments?—A. Yes.

Q. And that rental as rental has not been increased by this development?—A. That is right.

Q. But that rental that is paid is charged into the overhead of the company?—A. Yes, of the company, but not of the departments.

Q. Then is there any apportionment?—A. It is an additional item in the profit and loss account for rentals, one item.

By Mr. Heaps:

Q. Has this been the same since 1929?—A. Yes.

Q. No change?—A. The rental has not been the same. It varies from year to year.

By Mr. Senn:

Q. In other words, it is a method of bookkeeping and does not affect the final results?—A. It does not affect the profits of the consolidation of all the companies together.

By Mr. Heaps:

Q. What change has there been during the past five years?—A. It is $1,312,000 in 1933; $1,212,000 in 1932, which was a forty-eight week period instead of fifty-two, accounting for the decrease; $1,275,000 in 1931. Extensions have been made from time to time, and those rentals changed for that reason.

Q. There was no extension since 1929, was there?—A. Yes, there was an extension built, the Mutual street building—that is the mail order building,—and the Montreal store.

Q. It has been more or less the same, anyhow?—A. Yes, there is not much change in the amount of rent.

Q. In the issuing of the prospectus, was there any mention made of these rentals?

Mr. SOMMERVILLE: I am afraid the reporter who was here when the excerpts were read from the prospectus has taken it with him. We have not that here at the present time.

Mr. HEAPS: I think it would have quite a bearing.

The WITNESS: The prospectus mentioned that the properties are being transferred to Simpson's Limited.

By Mr. Heaps:

Q. Was there any reference made to rentals?—A. The amount of the rentals?

Q. Yes?—A. No.

By Mr. Sommerville:

Q. Before we proceed, what has been the record with reference to the payment of interest and dividends upon the securities issued by the 1929 company?

By Mr. Factor:

Q. Before you come to that, might I interrupt for a moment. This figure to pay interest by Simpsons Limited to the operating company would not affect the final analysis?—A. It does not affect the profit and loss of the consolidation.

By Mr. Sommerville:

Q. All right, Mr. Adamson?—A. The interest on the bonds has been paid.

Q. The interest on $10,000,000 of bonds has been paid to date?—A. Yes.

Q. What about the dividends on the $10,000,000 of preferred shares?—A. Paid in full from the time of issue to February 1, 1932; no dividends paid since.

Q. The dividends on the preferred shares have not been paid since February 1, 1932?—A. That is right.

By Mr. Factor:

Q. Didn't they start paying on May 1st of this year?—A. No.

By Mr. Sommerville:

Q. Were any dividends paid on the Class "A" shares?—A. Class "A" shares were paid at the rate of $2 per share in 1929 and 1930, and at $1 per share in 1931. No dividends have been paid since 1931, and the dividends on those shares are non-cumulative.

Q. Those Class "A" shares are held by the employees and the management of the company?—A. Yes. No dividends have been paid on the class "B" shares.

Q. No dividends paid on Class "B" shares. Now, proceed with the narrative, please?—A. Operating companies—this is speaking of the properties transferred to Simpsons Limited. Depreciation provided on these properties by Simpsons Limited in 1933 amounted to $178,221, which is on the basis of 2 per cent of the appraised values of the buildings and equipment. Deducting the depreciation from the rental charge, the net rental income to Simpsons Limited in 1933 is $1,133,779. If maximum depreciation rates allowed by the Federal Income Tax Department had been provided on these appraised values, the net income would have been reduced by approximately $200,000, or to $933,779. This net rental is more than the interest charges on the funds actually contributed to the operating companies by Simpson Limited, (which as indicated later totalled approximately $7,700,000) and as a result the earnings of the operating companies are reduced and those of Simpsons Limited are correspondingly increased. Considering the organization as whole, however, these property rentals do not affect the earnings, being eliminated in the consolidated statements.

Q. Naturally the operating company must earn enough money to pay the necessary interest on its securities, if it is paid?—A. Yes, they must get their income either by way of rentals or by dividends on common shares of the operating company.

By Mr. Ilsley:

Q. Can you suggest any reason why the company does this, that is, charges rentals and does not pay interest?—A. No, I don't know.

Q. You don't know what the motive is?—A. No.

By Mr. Sommerville:

Q. Will you proceed, Mr. Adamson?—A. The next is disposition of funds raised by Simpsons Limited. This is a summary of the funds raised by way of sales of securities in Simpsons Limited. Simpsons Limited (1929) has contributed $7,695,637 directly to the operating companies; it has also paid approximately twice this amount to the former shareholders of the Robert Simpson Company Limited as shown in the following:—

Contributions to Operating Companies:—		
Cash—		
Advances by its predecessor, Simpsons Limited (1925) to the Robert Simpson Company Limited and applied against properties transferred	$ 4,600,829	
Payments on account of properties transferred	2,475,498	
Lands purchased and buildings constructed—(Mutual street addition)	619,310	
		$ 7,695,637
Cash paid to former shareholders of the Robert Simpson Company Limited:—		
In 1925	5,025,000	
In 1929 (through the winding-up of Simpson Limited (1925)	10,548,450	
		15,573,450
		$23,269,087

Q. In other words, $15,000,000 was paid out from the company to its shareholders?—A. Yes.

Q. The shareholders now still hold the same number of shares that they formerly held?—A. No.

Q. In the operating company?—A. Simpsons Limited (1929), holds the same shares.

Q. Simpsons (1929) holding company?—A. Yes.

Q. It holds the same number of common shares as the 1925 company held?—A. Yes, of the Robert Simpson Company.

Q. Of the Robert Simpson Company holdings?—A. Yes.

Q. So that the shares have not been reduced at all; the same number exists?—A. That is right.

Q. The same amount of shares, right up to the present time?—A. Yes.

Q. They are still outstanding; and instead of their being in the hands of a group that took $15,000,000 out for their interest, they are in the hands of— —A. Simpsons.

Q. —the management who took shares in the 1929 company?—A. The shares of the Robert Simpson Company are owned by Simpsons Limited (1929), whose own shares are held by the management of the company.

By Mr. Ilsley:

Q. Class "A" common shares?—A. Yes, Class "A."

Q. The management and employees?—A. Yes.

By Mr. Factor:

Q. The operating company still has the original first mortgage bonds and 6 per cent preferred shares?—A. Yes.

By Mr. Sommerville:

Q. It has never changed at all?—A. The bonds are reduced each year.

Q. Except to that extent. All right, will you proceed?—A. The funds for these purposes were raised largely from the sale of its bonds and preference shares. As explained previously, its Class "A" shares were given to those former shareholders who still retained an interest in the business, and its Class "B" shares went to the underwriters of the other issues. Because of the various types of issues made, the income required from the operating companies for interest and dividends varies according to what dividends are declared.

At present no dividends are being paid on the preference shares of Simpsons Limited; in order to pay these dividends together with bond interest, income taxes, etc., it is necessary for the constituent companies to earn in addition to depreciation, interest charges on the bonds and dividends on the preference shares of the Robert Simpson Company Limited, still outstanding, approximately $1,500,000

Interest at $6\frac{1}{2}$ per cent (the dividend rate on the preferred shares) on the contributions made by Simpsons Limited to the operating companies would amount to approximately.	500,000
Balance, approximately.	$1,000,000

which represents the approximate amount of interest charges on the securities issued in order to provide the funds paid to former common shareholders of the Robert Simpson Company Limited and of Simpsons Limited (1925).

Q. There is now $1,000,000 of interest charges that has to be raised in order to pay the interest upon the securities that were issued to pay off the former shareholders?—A. That is right.

Q. That is the situation?—A. That is, if the preferred dividends are being paid.

Q. That is if the preferred dividends are being paid?—A. Yes.

By the Chairman:

Q. Which they are not?—A. Not at the present time.

By Mr. Sommerville:

Q. Not since 1932?—A. No, 1931.

Q. February, 1932?—A. Yes, that is right. I beg your pardon.

Q. Then there is a comparative balance sheet, Statement No. 11?—A. On Statement No. 11 are shown the assets and liabilities in consolidated form of the Simpson organization for the nine years, February 4, 1925, to January 3, 1934.

The increase in the total assets during the nine years (lands, buildings and equipment being included at their depreciated values) at February 4, 1925, and January 3, 1934, are listed side by side, showing the increase.

By the Chairman:

Q. It gives us 1925 and 1934?—A. Yes.

	At 4th February, 1925	At 3rd January, 1934	Increase
Totals per balance sheets..	$19,802,873	$35,137,603	$15,334,730
Less: Appreciation of fixed assets included therein..	2,816,850	8,720,700	5,903,850
Total value of assets, exclusive of appreciation.	$16,986,023	$26,416,903	$ 9,430,880

and is due to an increase of $2,213,451 in the current assets and to the large investment which the companies have made in additional buildings, the chief of which were:—

1928-29 Bay street extension to the Toronto store;
1930 Central indoor parking garage;
1929-31 New Montreal store;
1931 Addition to Mutual street building, Toronto.

By Mr. Factor:

Q. Does that mean, Mr. Adamson, that this $9,000,000 of increase came out of the earnings between 1925 and 1934?—A. No, the extensions were financed by funds raised through the sale of securities.

By Mr. Sommerville:

Q. I observe on Statement No. 11 a small item running through various years, sinking fund cash in the hands of trustees, $31.25 in February, 1925, and $58.77 in 1932. It disappears then. What is that?—A. It is a small balance of the sinking fund in connection with the bonds.

Q. And they were all paid off?—A. Yes.

Q. All right, will you proceed?—A. The capital structure changed considerably during the period, and is summarized below. We have been over the details, but this is just a summary.

The Chairman: You need not go over that again. The next page, or page 2, may be entered in the record.

Mr. SOMMERVILLE: That is the capital structure?

The CHAIRMAN: Yes, because we have gone all over that now.

Mr. SOMMERVILLE: We will insert that at this point.

	At 4th February, 1925		
	Before the reorganization	After the formation of Simpsons Limited (1925)	At 3rd January, 1934
Bonds, mortgages and preference shares of operating companies in the hands of the public..	$ 5,900,224	$ 5,900,224	$ 4,725,223
Common stock of The Robert Simpson Company Limited..	3,350,000		
Bonds of Simpsons Limited ..	....	5,600,000	10,283,500
Capital stock of Simpsons Limited—			
Preference shares..	....	....	11,250,000
Common shares..	....	5,372,737	
Common shares, Class "A" and Class "B" shares..	....	....	5,061,314
Balance of profit and loss account..	4,805,887	....	725,819
	$14,056,111	$16,872,961	$32,045,856

By Mr. Sommerville:

Q. Will you proceed?—A. The next is a comparison of profit and loss of the consolidation, shown on Statement No. 12. Statement No. 12 shows the annual earnings, both before and after depreciation, of the organization as a whole from the time of the incorporation of Simpsons Limited (1925) to 3rd January, 1934; the charges against these earnings for interest and dividends on the bonds and shares of the constituent companies held by the public and for the bond interest of the holding company, etc., and the net profit or loss of the consolidation. The lower part of the statement shows how much of these profits have been paid out in dividends on the shares of Simpsons Limited.

The WITNESS: Dealing with the earnings prior to 1925, which are not shown in Statement No. 4—

By Mr. Sommerville:

Q. Just before you leave Statement No. 12, I want to ask— —A. I am coming back to that as soon as we finish with the earnings prior to that.

Q. All right, proceed?—A. From the time of the incorporation of the Robert Simpson Company Limited, in 1896 to 1925, the operations of the company and the subsidiaries which it acquired during that period, were very successful—the profits after depreciation, bond interest, income taxes, etc., amounting to $14,429,498. Dividends in that period were as follows:—

Preference shares—			
In cash..		$2,122,532	
Common shares—			
In cash..	$4,450,923		
Stock dividends—			
Preference shares..	500,000		
Common shares..	2,603,300		
		$7,554,223	
			$9,676,755

Balance of surplus account of 4th February, 1925, the date of the incorporation of Simpson's Limited (1925) $4,752,743

Earnings from 1925 to 1933, inclusive: The annual profits of the consolidation, both before and after depreciation (as shown on Statement No. 12), along with the percentages of these earnings to the net invested capital (i.e. bonds and shares outstanding less appreciation arising from fixed asset appraisals) are summarized below. Do you want me to read these?

Mr. SOMMERVILLE: If you will, please. This is important.

The CHAIRMAN: Put that statement in as it is. You can just state a few of them.

Year	No. of weeks	Amount of net invested Capital	Earnings			
			Before Depreciation		After Depreciation as provided by the Company	
			Amount	Per cent to net invested capital	Amount	Per cent to net invested capital
		$	$	%	$	%
1924	53	14,056,112	2,541,652	18·1	2,019,812	14·4
1925	52	14,580,269	2,568,494	17·6	2,025,374	13·9
1926	52	15,251,932	3,168,993	20·8	2,592,313	17·0
1927	52	16,147,009	3,425,222	21·2	2,861,546	17·7
1928	52	20,905,851	3,621,975	17·3	3,048,385	14·6
1929	52	21,824,867	3,422,204	15·7	2,657,732	12·2
1930	52	24,507,271	3,277,687	13·4	2,501,012	10·2
1931	53	23,963,971	2,231,351	9·3	1,605,095	6·7
1932	48	23,467,133	679,278	2·9	114,600*	0·5
1933	52	23,325,156	1,826,607	7·8	1,223,458	5·2

*NOTE:—Depreciation was not provided by the Company for the year 1932. The profits shown $114,660 are after deducting $564,618 for depreciation which is the amount provided during 1932 but reversed at the year end.

The WITNESS: In 1924, the percentage of earnings to the net invested capital was 18·1 per cent, before depreciation. After depreciation, as provided by the company, it was 14·4 per cent. In 1930, it was 13·4 per cent before depreciation and 10·2 per cent after depreciation. In 1933, it was 7·8 per cent before depreciation, and 5·2 per cent after depreciation.

By Mr. Sommerville:

Q. What do you mean by "the net invested capital"; what have you taken as being the net amount?—A. All the outstanding bonds and shares in the hands of the public; not the inter-company holdings and the surplus and the balance at the end of each year.

Q. All the bonds and shares in the hands of the public?—A. I have the details here.

Q. Of all the companies?—A. Yes; there are only the Robert Simpson bonds and preference shares and the Simpson's Limited bonds and shares.

Q. We have already indications that those shares have been increased from time to time, the share assets have been increased from time to time by the stock dividends?—A. That was before 1924.

Q. But then that formed the basis, did it not; are they not included in those?—A. No, because the common shares of the Robert Simpson Company are held by Simpson's Limited and are not in the hands of the public. The shares were washed out in the consolidation; the shares which are outstanding in the hands of the public are only the bonds of the Robert Simpson Company, 3,350,000 preference shares of Robert Simpson's and the Simpson's Limited bonds and preference shares.

Q. Now, let us see how they make up that $23,000,000?—A. 1933. Bonds, mortgages and preference shares of the subsidiary companies of Robert Simpson, $4,725,223; Simpson's Limited, bonds $10,283,500; preference shares $11,250,-000; common shares, $5,061,314; surplus balance of $725,819, a total of $32,-045,856, from which was deducted the amount of the appraisal.

Q. The appraisal appreciation?—A. Yes.

Mr. ILSLEY: Where did you get the valuation to put on the class A and the Class B shares?

The WITNESS: The valuation in the books of the company.

Mr. SOMMERVILLE: At what amount are they valued in the books of the company?

The WITNESS: $1,061,314.

Mr. ILSLEY: What is that value based on? What is the valuation of the no par shares based on?

Mr. SOMMERVILLE: It means about $20 a share.

The WITNESS: It is a balancing figure to bring the obligations up to the value of the assets in the Robert Simpson company.

Mr. ILSLEY: Based essentially on an appraisal?

The WITNESS: Yes.

By Mr. Sommerville:

Q. The balance, the appreciation and the appraisal?—A. Yes.

Q. It does not represent cash paid into the company for that amount?—A. No.

Q. To that extent this amount $23,000,000 does not represent cash?—A. The appraisal has been eliminated from that figure of $23,000,000.

By Mr. Factor:

Q. Why do you say you eliminate the common shares of the operating company?—A. Because they are held by the Simpson's Limited company, and in the consolidation are washed out, the inter-company holdings. The percentages of the earnings after depreciation to the actual invested capital, that is, before the deduction of the appreciation is shown for each of the ten years: 1924, 10 per cent; 1925, 11·6 per cent; 1926, 14·3 per cent; 1927, 15·1 per cent; 1928, 12·9 per cent; 1929, 8·7 per cent; 1930, 7·5 per cent; 1931, 4·9 per cent; 1932, 4 per cent; 1933, 3·8 per cent.

By Mr. Sommerville:

Q. That is, including those appreciation allowances?—A. Yes.

Q. Including the common stock?—A. Yes.

Q. Of Simpson's?—A. It includes all of the outstanding shares in bonds to the public.

Mr. ILSLEY: That $5,000,000 valuation is in that?

The WITNESS: Yes.

Mr. ILSLEY: It is in the $23,000,000?

Mr. SOMMERVILLE: It is in the sense that—

The WITNESS: The amount of the security issued after the appraisal appreciations have been eliminated to show the earnings if securities have not been issued for the amount of the appreciation.

Mr. ILSLEY: All right; I do not quite understand, but I can get an idea in a vague way.

The WITNESS: The last figure is the percentage to the actual invested capital.

Mr. SOMMERVILLE: Yes.

The CHAIRMAN: Continue.

The WITNESS: The operations of the various units of the organization will be referred to later. The Toronto store has always provided the greater part of the earnings, although in the past four years, its earnings have been considerably

reduced. During this same period, the operations of the mail order division have not been profitable, due to the very substantial reductions in mail order sales volume. It will be noted that dividends on the preference shares of the Robert Simpson Company Limited have been maintained throughout the period. Dividends on all the common shares of that company have been paid to Simpson's Limited, since early in 1925, so that they do not appear in the consolidated statement. The net profits available for the shareholders of Simpson's Limited increased from $867,519 to a peak of $1,645,180 in 1928. In 1932 there was a net loss of $177,313, but the following year showed a net profit of $200,903.

By Mr. Sommerville:

Q. That loss is more than offset by depreciation?—A. Yes. In 1932, there was no depreciation provided; that was the only year.

Q. They did not deduct any depreciation that year?—A. No.

Q. The store operations were successful but the combined operations produced this loss?—A. Yes.

Mr. Heaps: Does that take into consideration the rentals on the premises of $1,300,000?

The Witness: It is eliminated in the consolidation because it is just the expenses of one company against the income of another company.

Mr. Heaps: The rent is not shown.

The Witness: Paid out by one company and received by another, so that in the end it is washed out in the consolidation.

Mr. Sommerville: Represented largely by the amount paid out, interest on bonds, and preference shares.

Mr. Nash: Not preference; that would be dividends; by interest on the bonds, yes.

The Witness: The dividend record of Simpson's Limited is summarized as follows:—

Simpson's Limited (1925)—

6 p.c. preference shares—paid in full from time of issue (1928 and 1929) to redemption in June, 1929;

Common shares paid $2.50 per share in 1925; $4 in 1926; $5 in 1927 and 1928; $1 in 1929.

Simpson's Limited (1929)—

6½ p.c. preference shares—paid in full from time of issue to 1st February, 1932. No dividends paid since. The dividends on these shares are cumulative.

Class "A" shares—paid at the rate of $2 per share in 1929 and 1930 and at $1 per share in 1931. No dividends have been paid since 1931, and dividends on these shares are non-cumulative.

Class "B" shares—No dividends paid.

The next section deals with the income and expenses under the holding company itself. I think we have pretty well covered that.

The Chairman: Yes, we have covered that pretty well.

Mr. Sommerville: It is the same thing in regard to the 1929 company?

The Witness: Yes, the same thing.

Mr. Nash: It was all part of the printed statement.

The CHAIRMAN: All right.

Mr. SOMMERVILLE: A note ought to be made by the reporter, somewhere, indicating where, on the printed sheet very heavy black type is used, it represents red ink on the original statement, and indicates either a loss or a deficit, according to the record in the statement, or it sometimes may refer to a deduction instead of an addition.

Mr. NASH: I gave certain information yesterday as to price spreads in Woodward's and Spencer's, and if the chairman or the committee would like, it can be made part of the printed record. They are in the hands of the printer, and can be put in their proper place at the close of yesterday's proceedings, instead of being mixed up with the other companies.

The CHAIRMAN: It will be so printed.

Mr. NASH: The printers would have them printed, and they could be put in their proper place.

The CHAIRMAN: Ask them to add them to the record or as an appendix to yesterday's record.

By Mr. Young:

Q. Why was the year 1932 a 48-week year?—A. The company changed its year end from the end of January to the end of December, or approximately those days.

The CHAIRMAN: Your next is operations.

The WITNESS: The operations of the various units.

The CHAIRMAN: We are going to distribute some forms amongst the members of the committee.

By Mr. Ilsley:

Q. I want to ask a general question or two to get this clear before we go on. All of the profits of this company were at the peak of its prosperity in 1928?—A. Yes.

Q. 1928?—A. 1928 and 1929 was the period.

Q. That is when the persons who were interested in it from the beginning stepped out of the company?—A. Yes.

Q. Getting $3,000 for an investment of $100 about 1900?—A. On their original investments. There were other shares paid for subsequently on which the return would not be the same.

Q. But for those who had been in it from the beginning, it is true that they got $3,000 on $100 invested by stepping out at the peak of the company's prosperity?—A. Yes, as a group. The shares had changed hands in the meantime, so you cannot say one individual got that.

Q. No.

By Mr. Sommerville:

Q. If, as was shown, the Flavelle, the Fudger and the Cox interests remained from the beginning to the end, they, at least, received that amount from the shares held representing the original investment?—A. Yes, on those shares which they held at the time that they got out, they realized that.

By Mr. Ilsley:

Q. They had received cash dividends every year during the time they were in?—A. Yes.

Q. And some years these cash dividends amounted to 50 per cent on their original——A. Original invested capital, yes.

Q. That is to say, suppose I was a shareholder who came in in 1929, I paid $3,000 for what cost the original investor $100, didn't I?—A. That is the amount the shareholders had got out of it during that period, $3,000.

Q. If the company is put in a position now to earn fair dividends on the $3,000 it is earning a lot on what went into it?—A. Yes.

By Mr. Sommerville:

Q. Before you leave this narrative, I just want to have you make a reference to the last statement, statement 12. What is the earnings of the consolidation? Read that figure? "The largest expenses of Simpson's," read that.—A. The largest expenses of Simpson's Limited (1929) is the interest on $11,250,000 bonds issued by it, which requires slightly more than $600,000 per year. If dividends are to be paid on the cumulative preference shares, a further $731,250 is required, but, as mentioned above, these have not been paid since 1st February, 1932.

Q. Continue with the next paragraph.—A. Statement No. 12 shows that the earnings of the consolidation, in excess of bond interest and dividends paid from the time of incorporation of Simpson's Limited (1929) to 3rd January, 1934, amount to $725,819. Simpson's Limited (1929) as a corporation, however, has a balance in its own profit and loss account of $974,731. Thus the holding company has been withdrawing slightly more than the combined earnings of its constituent companies.

By the Chairman:

Q. Of the obligations outstanding, shown in the consolidate balance sheet, roughly $23,000,000, approximately $15,000,000 of that would represent securities issued in order to secure the funds to purchase the various stocks which are represented by the $15,000,000 paid out, $5,000,000 in 1925, and $10,000,000 in 1929?—A. That is right. The total bonds and stocks and shares outstanding the 3rd January, 1934, is approximately $32,000,000, not $23,000,000.

Q. There is the appreciation?—A. Yes.

By Mr. Sommerville:

Q. Will you give us the total cost of the company's refinancing in 1925 and 1929? We have already had the expenses of the two items, $170,934.20 for the financing of the 1925 $5,000,000 bond issue.

Mr. FACTOR: He gave us that.

The WITNESS: There are 120,000 class B shares.

Mr. SOMMERVILLE: There is the financing of a bond issue, $121,255—

The CHAIRMAN: Perhaps the best way would be to ask Mr. Adamson to prepare a concise statement which can be put in later, showing all of the costs of this refinancing.

The WITNESS: Yes.

Mr. FACTOR: There are only three items.

The CHAIRMAN: There will be those that were retired, too.

Mr. SOMMERVILLE: The total redemption amounts.

The CHAIRMAN: There were securities retired in that year.

Mr. SOMMERVILLE: Yes.

By Mr. Ilsley:

Q. I do not suppose you know the cost of the 1929 financing?—A. I do not know what was realized for those shares; the shares were given to the underwriters, 120,000.

Q. How did class B shares sell shortly after that?—A. I don't know.

Q. Wood, Gundy & Company did all the financing?—A. Yes.

The CHAIRMAN: Let us get on with the next statement.

Mr. SOMMERVILLE: You are proceeding with the store?

The WITNESS: The Toronto store operations. Statement No. TT-1 is the first.

THE ROBERT SIMPSON COMPANY LIMITED

(Toronto Store)

COMPARATIVE TRADING AND PROFIT AND LOSS STATEMENT FOR TEN YEARS 1924 TO 1933 INCLUSIVE

	—	1924 53 Weeks ended 4th February, 1925	1925 52 Weeks ended 3rd February, 1926	1926 52 Weeks ended 2nd February, 1927
		$	$	$
1	Sales	22,184,397	23,471,204	24,021,577
2	Cost of Sales	15,756,135	16,609,259	16,866,409
3	Gross Profit	6,428,262	6,861,945	7,155,168
4	Gross Profit Percentage to Cost of Sales	40·8%	41·3%	42·4%
5	*Deduct:* Expenses (excluding depreciation and interest)	4,605,086	4,841,535	4,883,365
6	Departmental Operating Profits before charging interest and depreciation	1,823,176	2,020,410	2,271,803
7	x*Deduct:* Depreciation on Fixed Assets	432,963	454,236	484,878
8	Departmental operating profits after charging depreciation but before charging interest	1,390,213	1,566,174	1,786,925
9	x*Deduct:* Interest charged to Departments	672,518	674,923	685,819
10	Departmental operating Profits or *Losses* after charging Interest and Depreciation	717,695	891,251	1,101,106
11	*Less:* Adjustments of Inventory Reserves	....	....	100,000
12	Adjustments of Depreciation	....	....	....
13	Total adjustments	....	....	100,000
14	Net Departmental Profits or *Losses*	717,695	891,251	1,001,106
15	*Add:* Interest charged to Departments as shown above	672,518	674,923	685,819
16	Miscellaneous Revenue, less expense (net)	3,485	8,421	35,875
17	Miscellaneous adjustments	....	50,000	....
18	Special contract Profit or *Losses*	....	....	....
19		1,393,698	1,624,595	1,722,800
20	*Add:* Depreciation provided out of departmental operations and included in rent credited to Simpsons Limited	....	....	....
21		1,393,698	1,624,595	1,722,800
22	*Less:* Rentals credited to Simpsons Limited	....	....	....
23		1,393,698	1,624,595	1,722,800
24	*Add:* Depreciation written back	....	....	....
25	Net Profit before provision for Income Taxes, Bonuses, Bond Interest, etc	1,393,698	1,624,595	1,722,800
26	*Deduct:* Provision for Income Taxes	130,000	151,500	140,000
27	Provision for Employees' Profit sharing fund and Bonuses	178,868	190,500	184,830
28	Bond Interest	96,081	92,180	90,525
29	Commissions and Expenses re issue Simpsons Limited (1925) Preferred Shares	....	....	....
30	Total	404,949	434,180	415,355
31	Net Profits after Provision for Income Taxes, Bonuses, Employees' Profit Sharing Fund and Bond Interest, etc.	988,749	1,190,415	1,307,445
32	Deduct: Dividend on Preferred Shares	201,000	251,250	201,000
33	Dividends on Common Shares	335,000	519,250	896,125
34	Total Dividends	536,000	770,500	1,097,125
35	Net Additions to Surplus	452,749	419,915	210,320

xNOTE: The above figures for interest and depreciation include approximately $45,000 per annum charged to the Robert Simpson Eastern Limited.

STATEMENT No. TT-1

THE ROBERT SIMPSON COMPANY LIMITED

(Toronto Store)

COMPARATIVE TRADING AND PROFIT AND LOSS STATEMENT FOR TEN YEARS 1924 TO 1933 INCLUSIVE

1927 52 Weeks ended 1st February 1928	1928 52 Weeks ended 30th January, 1929	1929 52 Weeks ended 29th January, 1930	1930 52 Weeks ended 28th January, 1931	1931 53 Weeks ended 3rd February, 1932	1932 48 Weeks ended 4th January, 1933	1933 52 Weeks ended 3rd January, 1934	
$	$	$	$	$	$	$	
25,152,589	27,084,993	31,290,698	30,917,406	29,430,371	22,458,679	23,479,227	1
17,632,348	18,732,735	21,545,540	21,367,163	20,711,033	15,842,379	16,303,836	2
7,520,241	8,352,258	9,745,158	9,550,243	8,719,338	6,616,300	7,175,391	3
42·7%	44·6%	45·2%	44·7%	42·0%	41·8%	44·0%	4
5,040,713	5,677,856	6,764,740	6,707,495	6,539,852	5,379,565	5,547,166	5
2,479,528	2,674,402	2,980,418	2,842,748	2,179,486	1,236,735	1,628,225	6
464,512	471,660	753,697	761,931	744,212	669,085	424,623	7
2,015,016	2,202,742	2,226,721	2,080,817	1,435,274	567,650	1,203,602	8
671,738	698,313	993,799	1,097,268	1,114,310	987,758	1,178,789	9
1,343,278	1,504,429	1,232,922	983,549	320,964	**420,108**	24,813	10
100,000	100,000	....	**104,052**	**160,000**	**40,000**		11
....	....	**100,000**	....	**143,000**	....	....	12
100,000	100,000	**100,000**	**104,052**	**303,000**	**40,000**	....	13
1,243,278	1,404,429	1,332,922	1,087,601	623,964	**380,108**	24,813	14
671,738	698,313	993,799	1,097,268	1,114,310	987,758	1,178,789	15
67,926	39,403	**133,439**	**84,094**	34,037	47,475	98,875	16
11,164	....	....	....	....	**40,000**	....	17
11,164	**7,230**	**5,031**	38	**30,135**	**10,342**	**26,702**	18
1,982,942	2,134,915	2,188,251	2,100,813	1,742,176	604,783	1,275,775	19
....	....	123,919	221,711	215,752	209,706	107,896	20
1,982,942	2,134,915	2,312,170	2,322,524	1,957,928	814,489	1,383,671	21
....	....	357,690	724,800	787,378	738,460	800,000	22
1,982,942	2,134,915	1,954,480	1,597,724	1,170,550	76,029	583,671	23
....	....	....	....	....	466,153	....	24
1,982,942	2,134,915	1,954,480	1,597,724	1,170,550	542,182	583,671	25
133,650	150,000	169,000	66,500	....	**28,895**	17,165	26
265,836	269,759	295,872	121,775	41,438	12,973	16,675	27
87,689	85,692	83,580	80,486	79,262	69,084	71,689	28
....	170,934	....	....	....	....	....	29
487,175	676,385	548,452	268,761	120,700	53,162	105,529	30
1,495,767	1,458,530	1,406,028	1,328,963	1,049,850	489,020	478,142	31
201,000	201,000	201,000	201,000	201,000	185,540	201,000	32
1,005,000	1,038,500	603,000	636,500	469,000	....	....	33
1,206,000	1,239,500	804,000	837,500	670,000	185,540	201,000	34
289,767	219,030	602,028	491,463	379,850	303,480	277,142	35

THE ROBERT SIMPSON COMPANY LIMITED

(Toronto Store)

COMPARATIVE TRADING AND PROFIT AND LOSS STATEMENT FOR TEN YEARS 1924 TO 1933 INCLUSIVE

SURPLUS ACCOUNT

	—	1924 53 Weeks ended 4th February, 1925	1925 52 Weeks ended 3rd February, 1926	1926 52 Weeks ended 2nd February, 1927
		$	$	$
36	Balance forward from previous year	3,008,466	3,615,726	4,035,641
37	Net addition to surplus for the year as above	452,749	419,915	210,320
38	Profit of Toronto Mail Order division for the year 1925 (then owned by The Robert Simpson Company Limited)	154,511	....	....
39	Appropriations for losses in Robert Simpson Eastern Limited	....	....	....
40	Transferred to General Reserve	....	....	....
41	Balance in Surplus Account at the end of the year	3,615,726	4,035,641	4,245,961

STATEMENT No. TT-1

THE ROBERT SIMPSON COMPANY LIMITED

(Toronto Store)

COMPARATIVE TRADING AND PROFIT AND LOSS STATEMENT FOR TEN YEARS 1924 TO 1933 INCLUSIVE

SURPLUS ACCOUNT

1927 52 Weeks ended 1st February 1928	1928 52 Weeks ended 30th January, 1929	1929 52 Weeks ended 29th January, 1930	1930 52 Weeks ended 28th January, 1931	1931 53 Weeks ended 3rd February, 1932	1932 48 Weeks ended 4th January, 1933	1933 52 Weeks ended 3rd January, 1934	
$	$	$	$	$	$	$	
4,245,961	4,535,728	4,754,758	5,356,786	5,836,191	6,216,041	5,911,313	36
289,767	219,030	602,028	491,463	379,850	303,480	277,142	37
....	....	....	....	....	....	....	38
....	....	....	....	....	**608,208**	**216,818**	39
....	....	....	**12,058**	....	....	....	40
4,535,728	4,754,758	5,356,786	5,836,191	6,216,041	5,911,313	5,971,637	41

STATEMENT No. TT-4

THE ROBERT SIMPSON COMPANY LIMITED

(Toronto Store)

PROFIT AND LOSS ACCOUNT FOR THE 52 WEEK PERIOD ENDED 3RD JANUARY, 1934

Departmental profit before interest and depreciation	$ 1,508,529 00		
Less: depreciation charged to departments	424,623 00		
Departmental profit before interest	$ 1,083,906 00		
Less: interest on investment charged to departments	1,112,523 00		
Departmental loss (before adjustments) as shown on Statement No. TT-5		$ 28,617 00	
Adjustments: Absorption of loss on Arcadian Court by departments	$ 38,505 00		
Loss on original cost of old stock	18,340 00		
Sundry	33,265 38	53,430 38	
Loss on special contracts		$ 24,813 38	
		26,702 37	
Operating loss as shown on company's statement			$ 1,888 99
Interest and excess rent charged to departments, etc.:			
Sales departments (as above)	$ 1,112,523 00		
Mail Order Division	35,074 00		
Sundry workshops, etc	31,192 33		
Outside organizations	14,193 00		
	$ 1,192,982 33		
Inter-company interest	86,332 41		
	$ 1,279,314 74		
Depreciation charged to departments, etc., and credited to Simpson's, Limited in rental (see below)	107,896 00		
Interest, discount, exchange, etc. (net)	51,164 71		
Sundry property rentals (net)	24,694 74		
Sundry income (net)	26 0–		
		$ 1,463,096 27	
Deduct: Sundry expenses:			
President's salary (portion) and directors' fees (portion)	$ 30,657 25		
Insurance premiums on life of president	21,929 75		
Written off special advance to former director and sundry investments	16,469 50		
Legal and audit fees	8,480 00	77,536 50	1,385,559 77
			$ 1,383,670 78
Less: rental to Simpsons, Limited			800,000 00
Profit for period before Bond Interest and Dominion Income Taxes			$ 583,670 78

Deduct:		
Bank interest	$ 71,689 08	
Provision for Dominion Income Tax	17,164 81	
Preferred stock dividends	201,000 00	
Provision for employees' savings and profit sharing plan	16,675 20	306,529 09
Balance (Surplus) before provision for losses of subsidiary companies, as per company's audited statements		$ 277,141 69

Statement No. TT-5

THE ROBERT SIMPSON COMPANY LIMITED

(Toronto Store)

Departmental Statement of Profit and Loss for Fifty-two Week Period ending 3rd January, 1934

Dept. No.	Department	Sales for year ending 3rd January 1934	Cost of Sales	Gross Profit	Gross Profit Percentage to Cost of Sales	Total Direct Expenses of Sales Departments as detailed on Schedule attached
		$	$	$	%	$
200	Lending Library	15,086	6,931	8,155	117·66	4,617
201	Books	190,017	128,005	62,012	48·44	25,358
202	Stationery	304,990	196,514	108,476	55·20	38,963
203	Drugs	138,613	97,938	40,675	41·53	13,576
204	Toilet Goods	506,720	345,569	161,151	46·63	42,113
205	Optical Goods	42,115	18,626	23,489	126·11	9,262
206	Notions and Buttons	298,725	188,308	110,417	58·64	45,272
208	Wools and Art Needlework	184,107	122,551	61,556	50·23	28,276
210	Elizabeth Arden	13,507	8,590	4,917	57·24	3,305
225	Hand Bags, Umbrellas, etc	245,287	155,231	90,056	58·01	36,231
226	Laces	345,052	200,159	144,893	72·39	46,871
227	Jewelry	233,405	148,495	84,910	57·18	30,505
228	Silverware	246,981	158,006	88,975	56·31	34,662
229	Hosiery	531,567	381,651	149,916	32·14	48,920
230	Gloves	212,720	144,348	68,372	47·37	22,751
233	Lower Priced Gloves and Hosiery	211,143	151,620	59,523	39·26	23,272
251	Men's Shirts	509,101	350,495	158,606	45·25	67,455
252	Men's Underwear	149,075	99,791	49,284	49·39	18,384
253	Men's Sweaters, Hats and Collars	180,408	122,717	57,691	47·01	25,572
255	Men's Gloves and Hosiery	250,383	167,371	83,012	49·60	30,059
260	Men's Overcoats	308,445	203,327	105,118	51·70	36,564
262	Men's Suits	331,168	238,949	92,219	38·59	35,798
265	Men's Custom Tailoring	279,830	214,760	65,070	30·30	33,146
266	Boys' Clothing	419,916	285,308	134,608	47·18	47,425
269	Boys' Furnishings	216,100	142,165	73,935	52·01	27,705
270	Ecclesiastical	1,257	3,519	**2,262**	**64·28**	649
276	Women's Shoes	742,599	522,923	219,676	42·01	82,218
277	Shoe Repairing	26,261	21,039	5,222	24·82	321
283	Children's Shoes	117,438	86,763	30,675	35·35	17,156
285	Men's Shoes	252,720	175,562	77,158	43·95	34,655
287	Lower Priced Shoes	318,464	236,710	81,754	34·54	34,353
290	Toys, Sporting Goods, etc	526,534	359,693	166,841	46·38	85,025
301	Ladies' Coats	773,196	538,690	234,506	43·53	84,641
304	Knitted Suits, Sweaters, Skirts, and Blouses	292,043	201,537	90,506	44·91	45,249
305	Medium-Priced Dresses	310,635	226,971	83,664	36·86	48,544
306 and 308	Moderately Priced Dresses, House Dresses and Jr. Misses' Dresses	680,689	463,740	216,949	46·78	109,498
311	Furs	237,153	180,198	56,955	31·61	17,204
312	Millinery	503,528	312,812	190,716	60·97	77,668
314	Millinery Accessories	24,205	16,553	7,652	46·23	6,686
316	LowerPriced Dresses, etc	313,334	234,590	78,744	33·57	35,693

STATEMENT No. TT-5

THE ROBERT SIMPSON COMPANY LIMITED

(Toronto Store)

DEPARTMENTAL STATEMENT OF PROFIT AND LOSS FOR FIFTY-TWO WEEK PERIOD ENDING 3RD JANUARY, 1934

Profit or **Loss**		Total Indirect Expenses charged to Sales Department as shown on Schedule attached	Net Profit before Interest on Investment		Interest on Investment	Net Profit or **Loss** as shown on Company's Departmental Profit and Loss Statements	
Amount	Per cent to Sales		Amount	Per cent to Sales		Amount	Per cent to Sales
$	%	$	$	%	$	$	%
3,538	23·45	1,540	1,998	13·24	1,045	953	6·32
36,654	19·29	28,183	8,471	4·46	11,843	**3,372**	**1·77**
69,513	22·79	43,586	25,927	8·50	17,132	8,795	2·88
27,099	19·55	15,552	11,547	8·33	4,660	6,887	4·97
119,038	23·49	66,933	52,105	10·28	25,457	26,648	5·26
14,227	33·78	6,008	8,219	19·52	2,188	6,031	14·32
65,145	21·81	44,291	20,854	6·98	16,968	3,886	1·30
33,280	18·08	26,909	6,371	3·46	10,896	**4,525**	**2·46**
1,612	11·93	1,802	**190**	**1·41**	1,424	**1,614**	**11·95**
53,825	21·94	35,440	18,385	7·50	14,054	4,331	1·77
98,022	28·41	55,227	42,795	12·40	25,831	16,964	4·92
54,405	23·31	28,807	25,598	10·97	14,529	11,069	4·74
54,313	21·99	29,982	24,331	9·85	13,038	11,293	4·57
100,996	19·00	66,209	34,787	6·54	20,089	14,698	2·77
45,621	21·45	24,034	21,587	10·15	10,259	11,328	5·33
36,251	17·17	22,439	13,812	6·54	3,700	10,112	4·79
91,151	17·90	64,535	26,616	5·23	23,830	2,786	0·55
30,900	20·73	19,189	11,711	7·86	8,184	3,527	2·37
32,119	17·80	28,615	3,504	1·94	13,541	**10,037**	**5·56**
52,953	21·15	29,926	23,027	9·20	9,635	13,392	5·35
68,554	22·23	38,364	30,190	9·79	12,985	17,205	5·58
56,421	17·04	46,705	9,716	2·93	14,538	**4,822**	**1·46**
31,924	11·41	18,167	13,757	4·92	4,896	8,861	3·17
87,183	20·76	51,861	35,322	8·41	16,766	18,556	4·42
46,230	21·39	26,973	19,257	8·91	10,390	8,867	4·10
2,911	**231·58**	851	**3,762**	**299·28**	1,016	**4,778**	**380·11**
137,458	18·51	91,150	46,308	6·24	35,356	10,952	1·47
4,901	18·66	4,079	822	3·13	2,033	**1,211**	**4·61**
13,519	11·51	17,359	**3,840**	**3·27**	8,450	**12,290**	**10·47**
42,503	16·82	36,876	5,627	2·23	17,549	**11,922**	**4·72**
47,401	14·88	38,370	9,031	2·84	10,305	**1,274**	**0·40**
81,816	15·54	69,370	12,446	2·36	28,824	**16,378**	**3·11**
149,865	19·38	99,703	50,162	6·49	25,231	24,931	3·22
45,257	15·50	40,532	4,725	1·62	14,202	**9,477**	**3·25**
35,120	11·31	42,089	**6,969**	**2·24**	15,204	**22,173**	**7·14**
107,451	15·79	93,346	14,105	2·07	26,796	**12,691**	**1·86**
39,751	16·76	26,868	12,883	5·43	9,881	3,002	1·27
113,048	22·45	71,036	42,012	8·34	23,493	18,519	3·68
966	3·99	3,808	**2,842**	**11·74**	2,138	**4,980**	**20·57**
43,051	13·74	22,186	20,865	6·66	8,004	12,861	4·10

STATEMENT No. TT5

THE ROBERT SIMPSON COMPANY LIMITED—
(Toronto Store)

DEPARTMENTAL STATEMENT OF PROFIT AND LOSS FOR FIFTY-TWO WEEK PERIOD ENDING 3RD JANUARY, 1934

	Dept. No.	Department	Sales for year ending 3rd January, 1934	Cost of Sales	Gross Profit	Gross Profit Percentage to Cost of Sales	Total Direct Expenses of Sales Departments as detailed on Schedule attached
			$	$	$	%	$
		Brought Forward.......	....	....	....	....	....
1	317	Ladies L.P.S. Outer Garments..	39,096	26,474	12,622	47·68	4,499
2	318	Dress Alteration Workroom......	57,348	57,348	....	....	....
3	319	Fur Storage....................	31,553	11,918	19,635	164·75	656
4	326	Cotton and Silk Lingerie, Kimonas and Bathing Suits.........	571,266	410,623	160,643	39·12	60,412
5	331	Corsets........................	260,154	168,334	91,820	54·55	27,706
6	332	Knit Underwear.................	405,441	286,847	118,594	41·34	47,420
7	335	Infants and Small Children's Wear........................	419,226	285,730	133,496	46·72	60,650
8	336	Girls' Shop....................	151,790	104,976	46,814	44·59	27,835
9	351	Bedding........................	475,579	341,217	134,362	39·38	55,728
10	352	Table Linens...................	246,012	167,468	78,544	46·90	31,339
11	353	Staples........................	222,577	151,163	71,414	47·24	27,518
12	357	Plain and Fancy Silks...........	609,953	432,405	177,548	41·06	69,976
13	365	Wool and Cotton Dress Goods..	462,937	317,132	145,805	45·98	55,899
14	368	Patterns.......................	54,681	36,101	18,580	51·47	6,360
15	376	Carpets, Rugs..................	346,623	238,874	107,749	45·11	37,490
16	377	Oriental Rugs..................	68,162	51,261	16,901	32·97	9,329
17	378	Linoleums, etc.................	196,269	131,346	64,923	49·43	16,899
18	379	Hardwood Floors................	29,077	22,943	6,134	26·74	3,000
19	380	Carpet and Linoleum Workroom.	27,206	27,206	....	....	....
20	382	Curtains and Chintzes...........	293,655	181,905	111,750	61·43	47,837
21	384	Curtain Factory.................	8,365	8,365	....	....	....
22	385	Drapery Fabrics, Bedroom Boxes	366,901	248,138	118,763	47·86	58,510
23	388	Drapery Factory................	45,984	45,984	....	....	....
24	389	Outside Painting................	16,164	14,006	2,158	15·41	2,934
25	391	Paints and Wallpaper............	246,731	158,536	88,195	55·63	37,969
26	395	Radios and Musical Instruments.	470,506	340,215	130,291	38·30	71,568
27	398	Antiques........................	426	536	**110**	**20·52**	110
28	399	Fine Furniture..................	67,234	53,763	13,471	25·06	16,253
29	401	Furniture.......................	1,424,690	983,630	441,060	44·84	208,853
30	404	Trade-in Furniture..............	51,327	32,049	19,278	60·15	11,528
31	426	Hardware, Tinware..............	528,519	361,968	166,551	46·01	82,466
32	430	Stoves, Refrigerators, Bathroom Fixtures and Washing Machines	584,093	433,797	150,296	34·65	57,139
33	436	Travelling Goods................	74,589	51,844	22,745	43·87	8,372
34	439	Lamps, Shades, Electric Fixtures	238,256	165,433	72,823	44·02	45,626
35	445	China and Glassware............	307,615	208,441	99,174	47·58	64,652
36	451	Moderately Prices Pictures.......	81,019	50,795	30,224	59·50	17,073
37	463	Original Pictures.................	24,943	18,780	6,163	32·82	7,240
38	465	Pet Shop........................	46,464	30,302	16,162	53·34	15,965
39	476	Arcadian Court..................	241,956	86,515	155,441	179·67	179,333
40	478	Cafeteria.......................	103,150	31,857	71,293	223·79	42,723
41	480	Employees Restaurant...........	29,839	18,155	11,684	64·36	11,410
42	483	Coffee Shop.....................	182,891	67,751	115,140	169·95	74,647
43	484	Luncheonette....................	75,022	31,296	43,726	139·72	25,033
44	486	Hairdressing.....................	51,708	26,241	25,467	97·05	7,837
45	488	Children's Barber Shop..........	6,817	3,370	3,447	102·28	871
46	501	Groceries........................	669,642	498,511	171,131	34·33	73,296
47	505	Candies.........................	92,192	58,328	33,864	58·06	21,957
48	509	Fruits and Vegetables...........	273,558	199,286	74,272	37·27	45,603
49	512	Meats and Fish..................	446,797	330,158	116,639	35·33	57,560
50	520	Cut Flowers and Plants..........	105,994	68,672	37,322	54·35	18,361
51	524	Tobacco Shop...................	133,258	99,611	33,647	33·78	15,587
52	550	Demonstrations..................	29,455	21,345	8,110	37·99	698
		Totals..................	23,479,227	16,057,674	7,421,553	46·22	3,327,349

STATEMENT No. TT5—*Concluded*

THE ROBERT SIMPSON COMPANY LIMITED
(Toronto Store)

DEPARTMENTAL STATEMENT OF PROFIT AND LOSS FOR FIFTY-TWO WEEK PERIOD ENDING 3RD JANUARY, 1934

Profit or **Loss**		Total Indirect Expenses charged to Sales Department as shown on Schedule attached	Net Profit before Interest on Investment		Interest on Investment	Net Profit or **Loss** as shown on Company's Departmental Profit and Loss Statements		
Amount	Per cent to Sales		Amount	Per cent to Sales		Amount	Per cent to Sales	
$	%	$	$	%	$	$	%	
....	....	....	....	....	....	....	....	
8,123	20·78	5,850	2,273	5·81	1,290	983	2·51	1
....	....	....	....	....	....	....	....	2
18,979	60·15	1,471	17,508	55·49	33	17,475	55·38	3
100,231	17·55	61,605	38,626	6·76	19,559	19,067	3·34	4
64,114	24·64	28,906	35,208	13·53	8,268	26,940	10·36	5
71,174	17·55	44,568	26,606	6·56	12,322	14,284	3·52	6
72,846	17·38	53,907	18,939	4·52	20,830	**1,891**	**0·45**	7
18,979	12·50	22,904	**3,925**	**2·59**	8,423	**12,348**	**8·13**	8
78,634	16·53	56,081	22,553	4·74	20,147	2,406	0·51	9
47,205	19·19	30,698	16,507	6·71	16,182	325	0·13	10
43,896	19·72	27,813	16,083	7·23	11,797	4,286	1·93	11
107,572	17·64	73,904	33,668	5·52	24,670	8,998	1·48	12
89,906	19·42	55,890	34,016	7·35	20,983	13,033	2·82	13
12,220	22·35	7,832	4,388	8·02	2,868	1,520	2·78	14
70,259	20·27	41,701	28,558	8·24	14,545	14,013	4·04	15
7,572	11·11	9,801	**2,229**	**3·27**	9,741	**11,970**	**17·57**	16
48,024	24·47	22,279	25,745	13·12	6,306	19,439	9·90	17
3,134	10·78	2,540	594	2·04	549	45	0·15	18
....	....	....	....	....	....	....	....	19
63,913	21·76	40,481	23,432	7·98	18,166	5,266	1·79	20
....	....	....	....	....	....	....	....	21
60,253	16·42	47,335	12,918	3·52	22,000	**9,082**	**2·48**	22
....	....	....	....	....	....	....	....	23
776	**4·80**	893	**1,669**	**10·33**	152	**1,821**	**11·27**	24
50,226	20·36	33,301	16,925	6·86	13,673	3,252	1·32	25
58,723	12·48	62,377	**3,654**	**0·78**	13,935	**17,589**	**3·74**	26
220	**51·64**	367	**587**	**137·79**	551	**1,138**	**267·14**	27
2,782	**4·14**	14,440	**17,222**	**25·62**	14,014	**31,236**	**46·46**	28
232,207	16·30	248,761	**16,554**	**1·16**	83,109	**99,663**	**7·00**	29
7,750	15·10	8,581	**831**	**1·62**	2,115	**2,946**	**5·74**	30
84,085	15·91	73,102	10,983	2·08	30,805	**19,822**	**3·75**	31
93,157	15·95	63,864	29,293	5·02	14,918	14,375	2·46	32
14,373	19·27	10,224	4,149	5·56	3,805	344	0·46	33
27,197	11·42	35,933	**8,736**	**3·67**	15,177	**23,913**	**10·04**	34
34,522	11·22	45,953	**11,431**	**3·72**	29,415	**40,846**	**13·28**	35
13,151	16·23	13,658	**507**	**0·63**	7,405	**7,912**	**9·77**	36
1,077	**4·32**	1,881	**2,958**	**11·86**	5,734	**8,692**	**34·85**	37
197	0·42	8,725	**8,528**	**18·35**	4,811	**13,339**	**28·71**	38
23,892	**9·87**	24,601	**48,493**	**20·04**	21,184	**69,677**	**28·80**	39
28,570	27·70	13,770	14,800	14·35	9,961	4,839	4·69	40
274	0·92	1,337	**1,063**	**3·56**	37	**1,100**	**3·69**	41
40,493	22·14	19,469	21,024	11·50	11,850	9,174	5·02	42
18,693	24·92	6,899	11,794	15·72	3,688	8,106	10·80	43
17,630	34·10	8,762	8,868	17·15	6,126	2,742	5·30	44
2,576	37·79	1,142	1,434	21·04	747	687	10·07	45
97,835	14·61	75,718	22,117	3·30	17,694	4,423	0·66	46
11,907	12·92	13,701	**1,794**	**1·95**	4,186	**5,980**	**6·49**	47
28,669	10·48	31,751	**3,082**	**1·13**	5,484	**8,566**	**3·13**	48
59,079	13·22	50,799	8,280	1·85	7,401	879	0·20	49
18,961	17·89	15,661	3,300	3·11	5,267	**1,967**	**1·86**	50
18,060	13·55	8,002	10,058	7·55	3,744	6,314	4·74	51
7,412	25·16	2,160	5,252	17·83	496	4,756	16·15	52
4,094,204	17·54	3,010,298	1,083,906	4·64	1,112,523	**28,617**	**0·01**	

86332—182

STATEMENT No. TT-8

THE ROBERT SIMPSON CO., LIMITED

(Toronto Store)

COMPARATIVE STATEMENT OF NEWSPAPER ADVERTISING EXPENSE FOR ELEVEN YEARS 1923 TO 1933 INCLUSIVE

—	1923 (52 Weeks)	1924 (53 Weeks)	1925 (52 Weeks)	1926 (52 Weeks)	1927 (52 Weeks)	1928 (52 Weeks)	1929 (52 Weeks)	1930 (52 Weeks)	1931 (53 Weeks)	1932 (48 Weeks)	1933 (52 Weeks)	Total for Eleven Years
	$	$	$	$	$	$	$	$	$	$	$	$
The Toronto Daily Star	172,852	229,382	228,313	222,518	220,922	245,812	299,474	304,974	339,528	272,814	341,748	2,878,337
The Toronto Star Weekly	....	....	....	....	....	3,277	481	286	705	147	386	5,282
The Evening Telegram	187,735	228,585	226,872	222,241	220,474	242,916	304,751	329,851	371,963	277,968	334,874	2,948,330
The Mail and Empire	21,933	19,555	24,372	24,794	25,936	35,964	50,599	46,638	45,148	31,620	34,624	361,183
The Globe	26,147	24,644	27,441	25,225	26,019	35,322	43,307	38,618	38,208	26,733	27,896	339,560
Saturday Night	....	....	....	....	....	2,920	3,706	3,481	3,065	401	827	14,400
Miscellaneous	3,630	4,671	6,823	7,136	10,669	9,733	13,405	11,910	13,382	4,326	9,457	95,142
Total	412,397	506,837	513,821	501,914	504,020	575,944	715,723	735,758	811,999	614 009	749,812	6,642,234

COMPARATIVE ADVERTISING LINEAGES

The Evening Telegram—For the Seven Years 1927 to 1933 Inclusive

The Mail and Empire—For the Five Years 1929 to 1933 Inclusive

—	1927 (52 Weeks)	1928 (52 Weeks)	1929 (52 Weeks)	1930 (52 Weeks)	1931 (53 Weeks)	1932 (48 Weeks)	1933 (62 Weeks)
The Evening Telegram	1,722,125	1,878,300	2,200,890	2,401,660	2,744,680	2,069,981	2,500,527
The Mail and Empire	....	....	538,000	408,000	388,000	333,000	303,000

The lineages of the Toronto Daily Star and the Globe are not available, but are approximately the same as that of the Telegram and the Mail and Empire respectively

Advertising Rates (per line)

The Evening Telegram

31st January, 1918	8½c
1st February, 1919	9c
30th June, 1920	10c
1st July, 1920	13c
15th November, 1928	14c

The Toronto Daily Star

January, 1919	9c
September, 1919	10c
20th July, 1920	13c
September, 1928	14c

The Mail and Empire

31st December, 1920	8c
21st July, 1921	10c
31st August, 1921	12c
30th September 1928	10c
31st January, 1929	9c
1st February, 1927	10c
March, 1930	12c

The Globe

1926	10c
1927	10c
Spring 1929	8c
Fall 1929	7½-8-9-10c

STATEMENT No. TT-12

THE ROBERT SIMPSON COMPANY LIMITED, TORONTO STORE

STATEMENT SHOWING SUMMARY OF MERCHANDISE BROUGHT IN ON CONSIGNMENT DURING 1933

Department	Balance on Consignment at 4th January, 1933	Merchandise brought in on Consignment during 1933	Amounts charged back to Vendors either for merchandise returned or for price reduction	Net Consignment Purchases	Payments to Vendors	Balance on Consignment at 4th January, 1934
	$	$	$	$	$	$
No. 201—Books	653	2,238	920	**1,971**	1,248	723
No. 204—Toilet Goods	105	389	4	**490**	105	385
No. 260—Men's Overcoats	....	5,223	3,723	**1,500**	1,500	....
No. 276—Women's Shoes	3,014	225	90	**3,149**	2,433	716
No. 290—Toys, Sporting Goods	....	1,515	38	**1,477**	842	635
No. 301-2-4 5-6-16-17—Ladies' Dresses, Coats, etc., Departments	26,536	157,198	34,608	**149,126**	135,973	13,153
No. 311—Ladies' Furs	1,260	6,428	3,600	**4,088**	3,291	797
No. 395—Radios, Pianos	....	212	....	**212**	....	212
No. 520—Flowers	54	1,037	46	**1,045**	1,037	8
No. 524—Tobacco Shop	566	108	....	**674**	661	13
Totals	32,188	174,573	43,029	**163,732**	147,090	16,642

STATEMENT No. TT-14

THE ROBERT SIMPSON COMPANY LIMITED AND SUBSIDIARY COMPANIES

SUMMARY OF BUSINESS DONE IN 1933 BY ORDER OFFICES AND AGENTS

—	Ontario	Saskatchewan	Nova Scotia	Total
	$	$	$	$
Order Offices—				
Suburban (3)	286,041			286,041
Other	297,963			297,963
Agents working through order offices	207,779			207,779
Agents working independently of order offices	114,903	157,121	115,938	387,962
Totals	906,686	157,121	115,938	1,179,745

THE ROBERT SIMPSON EASTERN LIMITED

Toronto Mail Order Section

Comparative Trading and Profit and Loss Statement for Ten Years 1924 to 1933 Inclusive

	—	1924 53 weeks ended 4th February 1925	1925 52 weeks ended 3rd February 1926	1926 52 weeks ended 2nd February 1927
		$	$	$
	Sales:			
1	Mail Order	4,985,926	4,937,498	5,300,871
2	Retail	....	....	....
3	Total	4,985,926	4,937,498	5,300,871
	Cost of Sales:			
4	Mail Order	3,495,019	3,636,851	3,728,572
5	Retail	....	....	....
6	Total	3,495,019	3,636,851	3,728,572
	Gross Profit:			
7	Mail Order	1,490,907	1,300,647	1,572,299
8	Retail	....	....	....
9	Total	1,490,907	1,300,647	1,572,299
	Gross Profit Percentage to Cost of Sales:			
10	Mail Order	42·66	35·76	42·16
11	Retail	....	....	....
12	Total	....	....	....
13	*Deduct:* Expenses (excluding depreciation and interest)	1,291,897	1,309,144	1,390,539
14	Departmental operating profits before charging interest and depreciation	199,010	**8,497**	181,760
15	*Deduct:* Depreciation on Fixed Assets	10,985	12,439	12,535
16	Departmental Operating Profits after charging depreciation but before charging interest	188,025	**20,936**	169,225
17	*Deduct:* Interest charged to Departments	60,658	78,021	85,741
18	Departmental Operating Profits or *Losses* after charging Interest and Depreciation	127,367	**98,957**	83,484
19	*Less:* Adjustments of Inventory Reserves	....	**50,000**	50,000
20	Net Departmental Profits or *Losses*	127,367	**48,957**	33,484
21	*Add:* Interest charged to Departments as shown above	60,658	78,021	85,741
22	Miscellaneous Revenue, less expense (net)	5,618	**29,534**	**19,822**
23	Miscellaneous adjustments	....	....	**20,000**
24		193,643	**470**	79,403
25	*Add:* Depreciation written back	....	....	....
26	Net Profit before provision for Income Taxes, Bonuses, Bond Interest, etc	193,643	**470**	79,403
	Deduct:			
27	Provision for Income Taxes	18,000	....	6,500
28	Provision for Employees' Profit Sharing Fund and Bonuses	21,132	9,600	27,395
29		39,132	9,600	33,895
30	Net Profit or *Loss* after provision for Income Taxes, Bonuses and Employees' Profit Sharing Fund	154,511	**10,070**	45,508

STATEMENT No. MT-1

THE ROBERT SIMPSON EASTERN LIMITED

Toronto Mail Order Section

COMPARATIVE TRADING AND PROFIT AND LOSS STATEMENT FOR TEN YEARS 1924 TO 1933 INCLUSIVE

1927 52 weeks ended 1st February 1928	1928 52 weeks ended 30th January 1929	1929 52 weeks ended 29th January 1930	1930 52 weeks ended 28th January 1931	1931 53 weeks ended 3rd February 1932	1932 48 weeks ended 4th January 1933	1933 52 weeks ended 3rd January 1934	
$	$	$	$	$	$	$	
5,231,203	5,532,454	5,208,957	4,626,829	3,892,177	2,472,567	2,810,571	1
...	...	...	...	133,109	119,892	197,672	2
5,231,203	5,532,454	5,208,957	4,626,829	4,025,286	2,592,459	3,008,243	3
3,548,432	3,759,011	3,558,040	3,192,535	2,796,590	1,759,424	1,910,783	4
...	...	...	...	92,664	84,764	145,529	5
3,548,432	3,759,011	3,558,040	3,192,535	2,889,254	1,844,188	2,056,312	6
1,682,771	1,773,443	1,650,917	1,434,294	1,095,587	713,143	899,788	7
...	...	...	...	40,445	35,128	52,143	8
1,682,771	1,773,443	1,650,917	1,434,294	1,136,032	748,271	951,931	9
47·42	47·17	46·40	44·92	39·17	40·53	47·09	10
...	...	...	...	43·65	41·44	35·82	11
...	...	...	...	39·32	40·57	46·29	12
1,422,018	1,710,922	1,642,906	1,496,947	1,454,526	1,167,839	1,052,291	13
260,753	62,521	8,011	**62,653**	**318,494**	**419,568**	**100,360**	14
13,386	16,084	25,178	13,557	14,235	13,165	13,277	15
247,367	46,437	**17,167**	**76,210**	**332,729**	**432,733**	**113,637**	16
84,095	92,283	89,829	83,061	54,706	43,616	40,987	17
163,272	**45,846**	**106,996**	**159,271**	**387,435**	**476,349**	**154,624**	18
...	...	...	**25,000**	**134,178**	...	...	19
163,272	**45,846**	**106,996**	**134,271**	**253,257**	**476,349**	**154,624**	20
84,095	92,283	89,829	83,061	54,706	43,616	40,987	21
11,731	**13,621**	**25,571**	**37,878**	17,389	**51,022**	**57,943**	22
...	...	**269,860**	595	...	...	...	23
235,636	32,816	**312,598**	**88,493**	**181,162**	**483,755**	**171,580**	24
...	...	...	...	...	13,165	...	25
235,636	32,816	**312,598**	**88,493**	**181,162**	**470,590**	**171,580**	26
15,300	200	...	...	...	1,686	1,290	27
39,517	30,131	20,000	**6,000**	**5,262**	...	...	28
54,817	30,331	20,000	**6,000**	**5,262**	1,686	1,290	29
180,819	2,485	**332,598**	**82,493**	**175,900**	**472,276**	**172,870**	30

THE ROBERT SIMPSON EASTERN LIMITED

HALIFAX MAIL ORDER DIVISION

Comparative Trading and Profit and Loss Statement for Ten Years 1924 to 1933 Inclusive

	—	1924 53 Weeks ended 4th February, 1925	1925 52 Weeks ended 3rd February, 1926	1926 52 Weeks ended 2nd February, 1927
		$	$	$
	Sales—			
1	Mail Order	1,858,899	1,815,933	1,863,477
2	Retail	311,191	425,936	482,585
3	Total	2,170,090	2,241,869	2,346,062
	Cost of Sales—			
4	Mail Order	1,299,352	1,276,571	1,280,242
5	Retail	257,660	359,684	399,314
6	Total	1,557,012	1,636,255	1,679,556
	Gross Profit—			
7	Mail Order	559,547	539,362	583,235
8	Retail	53,531	66,252	83,271
9	Total	613,078	605,614	666,506
	Gross Profit Percentage to Cost of Sales—			
10	Mail Order	43·06%	42·25%	45·55%
11	Retail	20·77%	18·42%	20·85%
12	Total	39·37%	37·01%	39·68%
13	*Deduct:* Expenses (excluding depreciation and interest)	534,121	541,513	548,272
14	Departmental operating profits before charging interest and depreciation	78,957	64,101	118,234
15	*Deduct:* Depreciation on Fixed Assets	21,446	21,438	21,432
16	Departmental Operating Profits after charging Depreciation but before charging Interest	57,511	42,663	96,802
17	*Deduct:* Interest charged to Department	58,626	60,968	65,338
18	Departmental Operating Profits or **Losses** after charging Interest and Depreciation	**1,115**	**18,305**	31,464
19	*Less:* Adjustments of Inventory Reserves	5,000	....	....
20	Net Departmental Profits or **Losses**	**6,115**	**18,305**	31,464
21	*Add:* Interest charged to Departments as shown above	58,626	60,968	65,338
22	Miscellaneous Revenue, less Expense (net)	**9,425**	**11,516**	**13,299**
23	Miscellaneous Adjustments	**1,824**	....	**5,000**
24		41,262	31,147	78,503
25	*Add:* Depreciation provided out of Departmental Operations and included in rent credited to Simpsons Limited	....	....	....
26		41,262	31,147	78,503
27	*Less:* Rentals credited to Simpsons Limited	....	....	....
28		41,262	31,147	78,503
29	*Add:* Depreciation written back	....	....	....
30	Net Profit before provision for Income Taxes, Bonuses, Interest, etc	41,262	31,147	78,503
	Deduct:			
31	Provisions for Income Tax	3,800	3,000	6,000
32	Provisions for Employees' Profit Sharing Fund and Bonuses	5,000	3,200	10,000
33		8,800	6,200	16,000
34	Net Profit or **Loss** after provision for Income Taxes, Bonuses and Employees' Profit Sharing Fund	$ 32,462	24,947	62,503

STATEMENT No. MT-2

THE ROBERT SIMPSON EASTERN LIMITED

HALIFAX MAIL ORDER DIVISION

COMPARATIVE TRADING AND PROFIT AND LOSS STATEMENT FOR THE YEARS 1924 TO 1933 INCLUSIVE

1927 52 Weeks ended 1st February, 1928	1928 52 Weeks ended 30th January, 1929	1929 52 Weeks ended 29th January, 1930	1930 52 Weeks ended 28th January, 1931	1931 53 Weeks ended 3rd February, 1932	1932 48 Weeks ended 4th January, 1933	1933 52 Weeks ended 3rd January, 1934	
$	$	$	$	$	$	$	
1,845,072	1,871,874	1,923,031	1,883,677	1,535,294	971,622	1,084,902	1
488,474	485,572	598,508	651,657	683,278	677,885	864,771	2
2,333,546	2,357,446	2,521,539	2,535,334	2,218,572	1,649,507	1,949,673	3
1,248,994	1,256,808	1,293,430	1,294,379	1,147,432	684,673	733,953	4
401,268	407,473	477,091	521,202	478,178	476,532	602,966	5
1,650,262	1,664,281	1,770,521	1,815,581	1,625,610	1,161,205	1,336,919	6
596,078	615,066	629,601	589,298	387,862	286,949	350,949	7
87,206	78,099	121,417	130,455	205,100	201,353	261,805	8
683,284	693,165	751,018	719,753	592,962	488,302	612,754	9
47·72%	48·93%	48·68%	45·53%	33·80%	41·91%	47·82%	10
21·73%	19·17%	25·45%	25·03%	42·89%	42·25%	43·42%	11
41·40%	41·65%	42·42%	39·65%	36·47%	42·05%	45·83%	12
601,916	644,715	671,068	689,325	666,133	569,080	569,832	13
81,368	48,450	79,950	30,428	**73,171**	**80,778**	42,922	14
21,904	23,138	24,140	24,475	25,614	24,937	27,009	15
59,464	25,312	55,810	5,953	**98,785**	**105,715**	15,913	16
67,873	72,007	69,683	66,998	58,336	51,378	54,837	17
8,409	**46,695**	**13,873**	**61,045**	**157,121**	**157,093**	**38,924**	18
...	...	50,000	**25,000**	37,935	...	...	19
8,409	**46,695**	**63,873**	**36,045**	**119,186**	**157,093**	**38,924**	20
67,873	72,007	69,683	66,998	58,336	51,378	54,837	21
8,773	**11,596**	**9,341**	**7,982**	**9,801**	**17,400**	**26,660**	22
...	...	...	...	...	...	...	23
50,691	13,716	**3,531**	22,971	**70,651**	**123,115**	**10,747**	24
...	...	6,462	10,836	10,836	9,970	10,800	25
50,691	13,716	2,931	33,807	**59,815**	**113,145**	53	26
...	...	26,230	43,980	44,832	40,616	44,000	27
50,691	13,716	**23,299**	**10,173**	**104,647**	**153,761**	**43,947**	28
...	...	...	...	...	14,967	...	29
50,691	13,716	**23,299**	**10,173**	**104,647**	**138,794**	**43,947**	30
3,000	275	1,750	...	...	**2,862**	...	31
10,000	10,000	5,000	...	687	...	...	32
13,000	10,275	6,750	...	687	**2,862**	...	33
37,691	3,441	**30,049**	**10,173**	**105,334**	**135,932**	**43,947**	34

THE ROBERT SIMPSON EASTERN LIMITED

Comparative Statement of Surplus Account for Ten Years 1924 to 1933 Inclusive

	—	1924 53 weeks ended 4th February, 1925	1925 52 weeks ended 3rd February, 1926	1926 52 weeks ended 2nd February, 1927
		$	$	$
1	Balance forward from Previous Year	50,697	83,159	98,036
	Net additions to Surplus for the Year, as above— Toronto Mail Order—			
2	Department (Statement No. MT-1)	*	**10,070**	45,508
	Halifax Mail Order—			
3	Department (Statement No. MT-2)	32,462	24,947	62,503
4	Balance in Surplus Account at the end of the year	83,159	98,036	206,047

* As The Robert Simpson Company Limited, owned the Toronto Mail Order in 1924, the profit of $154,511 for 1924 of the Toronto Mail Order was taken up by The Robert Simpson Company Limited (Statement No. MT-1).

STATEMENT No. MT-2A.

THE ROBERT SIMPSON EASTERN LIMITED

COMPARATIVE STATEMENT OF SURPLUS ACCOUNT FOR TEN YEARS 1924 TO 1933 INCLUSIVE

1927 52 weeks ended 1st February, 1928	1928 52 weeks ended 30th January, 1929	1929 52 weeks ended 29th January, 1930	1930 52 weeks ended 28th January, 1931	1931 53 weeks ended 3rd February, 1932	1932 48 weeks ended 4th January, 1933	1933 52 weeks ended 3rd January, 1934	
$	$	$	$	$	$	$	
206,047	424,557	430,483	67,836	**24,830**	**306,064**	**914,272**	1
180,819	2,485	**332,598**	**82,493**	**175,900**	**472,276**	**172,870**	2
37,691	3,441	**30,049**	**10,173**	**105,334**	**135,932**	**43,947**	3
424,557	430,483	67,836	**24,830**	**306,064**	**914,272**	**1,131,089**	4

Statement No. MT3

THE ROBERT SIMPSON WESTERN LIMITED
REGINA MAIL ORDER AND RETAIL SECTION

Comparative Trading and Profit and Loss Statement for Ten Years 1924 to 1933 Inclusive

	—	53 Weeks ended 4th February 1925	52 Weeks ended 3rd February 1926	52 Weeks ended 2nd February 1927
	Sales—	$	$	$
1	Mail Order	5,341,826	5,658,474	6,300,025
2	Retail	478,143	472,895	525,014
3	Total	5,819,969	6,131,369	6,825,039
	Cost of Sales—			
4	Mail Order	3,676,976	3,887,423	4,233,925
5	Retail	414,240	420,044	458,153
6	Total	4,091,216	4,307,467	4,692,078
	Gross Profit—			
7	Mail Order	1,664,850	1,771,051	2,066,100
8	Retail	63,903	52,851	66,861
9	Total	1,728,753	1,823,902	2,132,961
	Gross Profit Percentage to Cost of Sales—	%	%	%
10	Mail Order	45·3	45·6	48·8
11	Retail	15·4	12·6	14·6
12	Total	42·3	42·3	45·5
	Deduct—	$	$	$
13	Expenses (excluding depreciation and interest)	1,445,483	1,534,781	1,648,658
14	Departmental operating profits before charging interest and depreciation	283,270	289,121	484,303
15	*Deduct*—Depreciation on Fixed Assets	19,571	19,640	18,653
16	Departmental Operating Profits or *Losses* after charging Depreciation but before charging Interest	263,699	269,481	465,650
17	*Deduct*—Interest charged to Departments	94,259	102,925	117,664
18	Departmental Operating Profits or *Losses* after charging Interest and Depreciation	169,440	166,556	347,986
19	*Less*—Adjustments of Inventory Reserves	10,000	....	5,000
20	Net Departmental Profits or *Losses*	159,440	166,556	342,986
21	*Add*—Interest charged to Departments as shown above	94,259	102,925	117,664
22	Miscellaneous Revenue, less expense (net)	118	15,811	17,881
23	Miscellaneous adjustments	....	....	**25,000**
24		253,817	285,292	453,531
25	*Add*—Depreciation provided out of departmental operations and included in rent credited to Simpson's Limited	....	....	....
26		253,817	285,292	453,531
27	*Less*—Rentals credited to Simpson's Limited	....	....	....
28		253,817	285,292	453,531
29	*Add*—Depreciation written back	....	....	....
30	Net Profit before provision for Income Taxes,, Bonuses, Bond Interest, etc	253,817	285,292	453,531
	Deduct—			
31	Provision for Income Tax	26,000	28,000	40,000
32	Provision for Employees' Profit Sharing Fund and Bonuses	24,000	19,200	30,000
33		50,000	47,200	70,000
34	Net Profit or *Loss* after provision for Income Taxes, Bonuses and Employees' Profit Sharing Fund	203,817	238,092	383,531

Surplus Account

35	Balance forward from Previous Year	178,458	382,275	620,367
36	Net addition to Surplus for the year as above	203,817	238,092	383,531
37	Balance in Surplus Account at end of year	382,275	620,367	1,003,898

STATEMENT No. MT3

THE ROBERT SIMPSON WESTERN LIMITED
REGINA MAIL ORDER AND RETAIL SECTION

COMPARATIVE TRADING AND PROFIT AND LOSS STATEMENT FOR TEN YEARS 1924 TO 1933 INCLUSIVE

52 Weeks ended 1st February 1928	52 Weeks ended 30th January 1929	52 Weeks ended 29th January 1930	52 Weeks ended 28th January 1931	53 Weeks ended 3rd February 1932	48 Weeks ended 4th January 1933	52 Weeks ended 3rd January 1934	
$	$	$	$	$	$	$	
6,405,194	6,264,480	5,501,236	4,566,422	3,892,897	2,842,654	3,200,376	1
576,102	653,072	555,577	541,651	678,362	750,499	979,477	2
6,981,296	6,917,552	6,056,813	5,108,073	4,571,259	3,593,153	4,179,853	3
4,270,327	4,201,030	3,734,899	3,201,021	2,910,779	1,958,554	2,170,290	4
536,222	534,930	450,677	424,162	491,123	543,140	681,441	5
4,806,549	4,735,960	4,185,576	3,625,183	3,401,902	2,501,694	2,851,731	6
2,134,867	2,063,450	1,766,337	1,365,401	982,118	884,100	1,030,086	7
39,880	118,142	104,900	117,489	187,239	207,359	298,036	8
2,174,747	2,181,592	1,871,237	1,482,890	1,169,357	1,091,459	1,328,122	9
%	%	%	%	%	%	%	
50·0	49·1	47·3	42·7	33·7	45·1	47·5	10
7·4	22·1	23·3	27·7	38·1	38·2	43·7	11
45·2	46·1	44·7	40·9	34·4	43·6	46·6	12
$	$	$	$	$	$	$	
1,809,345	1,727,192	1,682,483	1,586,038	1,473,466	1,332,847	1,314,409	13
365,402	454,400	188,754	**103,148**	**304,109**	**241,388**	13,713	14
23,381	21,067	22,118	25,649	24,170	21,978	23,206	15
342,021	433,333	166,636	**128,797**	**328,279**	**263,366**	**9,493**	16
118,540	132,850	121,496	108,538	82,577	74,668	76,729	17
223,481	300,483	45,140	**237,535**	**410,856**	**338,034**	**86,222**	18
......	......	......	......	**163,200**	......	......	19
223,481	300,483	45,140	**237,335**	**247,656**	**338,034**	**86,222**	20
118,540	132,850	121,496	108,538	82,577	74,668	76,729	21
43,264	46,019	74,147	80,879	39,289	63,724	53,661	22
......	......	......	......	......	......	......	23
385,285	479,352	240,783	**47,918**	**125,790**	**199,642**	44,168	24
......	......	9,345	15,674	15,674	14,469	15,674	25
385,285	479,352	250,128	**32,244**	**110,116**	**185,173**	59,842	26
......	......	40,540	68,026	69,329	62,769	68,000	27
385,285	479,352	209,588	**100,270**	**179,445**	**247,942**	**8,158**	28
......	......	......	......	......	7,509	......	29
385,285	479,352	209,588	**100,270**	**179,445**	**240,433**	**8,158**	30
26,500	37,000	15,600	......	......	**12,276**	......	31
30,000	30,000	20,000	2,500	2,125	......	......	32
56,500	67,000	35,600	2,500	2,125	**12,276**	......	33
328,785	412,352	173,988	**102,770**	**181,570**	**228,157**	**8,158**	34

SURPLUS ACCOUNT

1,003,898	1,332,683	1,745,035	1,919,023	1,816,253	1,634,683	1,406,526	35
328,785	412,352	173,988	**102,770**	**181,570**	**228,157**	**8,158**	36
1,332,683	1,745,035	1,919,023	1,816,253	1,634.683	1.406,526	1.398,368	37

THE ROBERT SIMPSON MONTREAL LIMITED

Comparative Trading and Profit and Loss Statement for Ten Years 1924 to 1933 inclusive

	—	1924 53 Weeks ended 4th February 1925	1925 52 Weeks ended 3rd February 1926	1926 52 Weeks ended 2nd February 1927
		$	$	$
1	Sales	2,217,991	2,385,190	2,823,278
2	Cost of Sales	1,487,096	1,655,432	1,929,891
3	Gross Profit	730,895	729,758	893,387
4	Gross Profit Percentage to Cost of Sales	49·1%	44·1%	46·3%
5	*Deduct:* Expenses (excluding depreciation and interest)	573,575	609,069	637,427
6	Departmental Operating Profits before charging Interest and Depreciation	157,320	120,689	255,960
7	*Deduct:* Depreciation on Fixed Assets	35,841	35,936	38,984
8	Departmental Operating Profits after charging Depreciation but before charging Interest	121,479	84,753	216,976
9	*Deduct:* Interest charged to Departments	77,310	86,046	89,542
10	Departmental Operating Profits or losses after charging Interest and Depreciation	44,169	**1,293**	127,434
11	*Less:* Adjustments of Inventory Reserves	10,000		
12	Adjustments of Depreciation			
13	Total Adjustments	10,000	**1,293**	127,434
14	Net Departmental Profits or Losses	34,169	**1,293**	127,434
15	*Add:* Interest charged to Departments, as shown above	77,310	86,046	89,542
16	Miscellaneous Revenue, less expense (net)	**28,929**	**26,854**	**22,876**
17	Miscellaneous adjustments	**518**	**289**	
18		82,032	57,610	194,100
19	*Add:* Depreciation provided out of departmental operations and included in rent credited to Simpsons Limited			
20		82,032	57,610	194,100
21	*Less:* Rentals credited to Simpsons Limited			
22		82,032	57,610	194,100
23	*Add:* Depreciation written back			
24	Net Profit before provision for Income Taxes, Bonuses, Bond Interest, etc	82,032	57,610	194,100
25	*Deduct:* Provision for Income Tax	8,000	7,000	16,500
26	Provision for Employees Profit Sharing Fund and Bonuses	6,000	6,000	25,000
27		14,000	13,000	41,500
28	Net Profit or *Loss* after provision for Income Taxes, Bonuses and Employees' Profit Sharing Fund	68,032	44,610	152,600

Surplus Account

29	Balance forward from previous year	441,507	509,539	554,149
30	Net Addition to Surplus for the year as above	68,032	44,610	152,600
31	Balance in Surplus Account at end of year	509,539	554,149	706,749

Statement No. F3

THE ROBERT SIMPSON MONTREAL LIMITED

Comparative Trading and Profit and Loss Statement for Ten Years 1924 to 1933 Inclusive

1927 52 Weeks ended 1st February 1928	1928 52 Weeks ended 30th January 1929	1929 52 Weeks ended 29th January 1930	1930 52 Weeks ended 28th January 1931	1931 53 Weeks ended 3rd February 1932	1932 48 Weeks ended 4th January 1933	1933 52 Weeks ended 3rd January 1934	
$	$	$	$	$	$	$	
2,830,594	2,913,679	3,118,329	3,724,814	4,710,863	4,434,207	4,909,422	1
1,985,575	1,997,222	2,119,089	2,541,137	3,329,501	3,128,555	3,455,076	2
845,019	916,457	999,240	1,183,677	1,381,362	1,305,652	1,454,346	3
42·6%	45·9%	47·2%	46·6%	41·5%	41·7%	42·1%	4
639,430	675,586	727,493	893,249	1,163,649	1,098,980	1,226,756	5
205,589	240,871	271,747	290,428	217,713	206,672	227,590	6
40,201	41,360	38,912	56,670	99,337	106,868	114,426	7
165,388	199,511	232,835	233,758	118,376	99,804	113,164	8
92,730	88,979	92,712	157,987	354,742	292,101	315,749	9
72,658	110,532	140,123	75,771	**236,366**	**192,297**	**202,585**	10
9,000	17,000	17,000	....	**8,000**			11
....	....	....	....	**36,000**			12
9,000	17,000	17,000	75,771	**44,000**			13
63,658	93,532	123,123	75,771	**192,366**	**192,297**	**202,585**	14
92,730	88,979	92,712	157,987	354,742	292,101	315,749	15
17,044	**4,130**	35,368	85,355	**48,163**	**58,715**	**84,099**	16
							17
139,344	178,381	251,203	319,113	114,213	41,089	29,065	18
....	....	7,475	17,186	28,832	46,369	50,272	19
139,344	178,381	258,678	336,299	143,045	87,458	79,337	20
....	....	92,500	257,329	372,636	369,230	400,000	21
139,344	178,381	166,178	78,970	**229,591**	**281,772**	**320,663**	22
....	....	....	....	....	60,499	....	23
139,344	178,381	166,178	78,970	**229,591**	**221,273**	**320,663**	24
11,000	15,300	12,600	2,100	....	**706**		25
13,500	16,000	16,000	13,000	4,185	....		26
24,500	31,300	28,600	15,100	4,185	**706**		27
114,844	147,081	137,578	63,870	**233,776**	**220,567**	**320,663**	28

Surplus Account

706,749	821,593	968,674	1,106,252	1,170,122	936,346	715,779	29
114,844	147,081	137,578	63,870	**233,776**	**220,567**	**320,663**	30
821,593	968,674	1,106,252	1,170,122	936,346	715,779	395,116	31

STATEMENT No. 71

THE ROBERT SIMPSON MONTREAL LIMITED

PROFIT AND LOSS BY DEPARTMENTS FOR THE YEAR 1933

Department	Sales	Gross Profit Before Credit Note Deductions	Credit Notes Deducted	Gross Profit	Percentage to Cost of Sales	Expenses	Net Profit or **Loss**	Cost of Sales
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
701 Toilet Goods	124,124 00	45,300 00	3,227 00	42,073 00	51·27	36,692 00	5,381 00	82,051 00
702 Leather Goods	78,523 00	27,984 00	2,862 00	25,122 00	47·03	26,252 00	**1,130 00**	53,410 00
703 Jewelry and Stationery	57,060 00	21,656 00	3,763 00	17,893 00	45·68	23,242 00	**5,349 00**	39,167 00
704 Beauty Salon	44,757 00	20,549 00	6 00	20,543 00	84·84	18,720 00	1,823 00	24,214 00
707 Hosiery	254,884 00	81,209 00	3,763 00	77,446 00	43·64	66,986 00	10,460 00	177,438 00
708 Gloves	87,355 00	31,965 00	5,334 00	26,431 00	43·38	29,046 00	**2,615 00**	60,925 00
709 Laces, Neckwear, Ribbons, etc	176,710 00	78,664 00	5,593 00	73,071 00	70·50	66,446 00	6,625 00	103,639 00
710 Notions	94,025 00	38,492 00	1,859 00	36,633 00	63·82	37,858 00	**1,225 00**	57,392 00
712 Men's and Boys' Clothing, Boys' Furnishings	236,807 00	76,969 00	11,996 00	64,973 00	37·81	86,369 00	**21,396 00**	171,834 00
713 Men's Furnishings and Hats	219,413 00	78,067 00	13,847 00	64,220 00	41·38	86,984 00	**22,764 00**	155,193 00
721 Women's Shoes	270,787 00	96,227 00	15,808 00	80,419 00	42·24	78,528 00	1,891 00	190,368 00
722 Children's Shoes	35,287 00	11,701 00	1,262 00	10,439 00	42·01	11,464 00	**1,025 00**	24,848 00
723 Men's Shoes	51,554 00	17,498 00	2,845 00	14,653 00	39·70	21,122 00	**6,469 00**	36,901 00
724 L. P. Shoes	157,509 00	49,098 00	7,996 00	41,102 00	35·30	44,601 00	**3,499 00**	116,407 00
725 Shoe Repairing	15,577 00	2,338 00	......	2,338 00	17·65	2,702 00	**364 00**	13,239 00
726 Patterns	20,490 00	6,026 00	976 00	5,050 00	32·70	6,394 00	**1,344 00**	15,440 00
727 Dress Fabrics	366,956 00	138,840 00	23,807 00	115,033 00	45·66	105,150 00	9,883 00	251,923 00
730 Millinery	180,628 00	79,863 00	10,591 00	69,272 00	62·20	70,227 00	**955 00**	111,356 00
731 Coats and Suits	274,017 00	102,550 00	19,811 00	82,736 00	43·24	85,716 00	**2,980 00**	191,281 00
733 Better Priced Dresses	75,894 00	30,368 00	14,135 00	16,233 00	27·30	31,445 00	**15,212 00**	59,661 00
734 Moderately Priced Dresses	225,462 00	85,790 00	23,003 00	62,787 00	38·59	92,372 00	**29,585 00**	162,675 00
735 Misses' Dresses	55,584 00	22,558 00	3,097 00	19,461 00	53·87	16,269 00	3,192 00	36,123 00
738 L. P. Coats and Dresses	175,642 00	59,819 00	13,725 00	46,094 00	35·58	52,976 00	**6,882 00**	129,548 00
740 Furs	81,321 00	32,578 00	3,820 00	28,758 00	54·71	19,285 00	9,473 00	52,563 00
741 Corsets	72,746 00	27,572 00	1,747 00	25,825 00	55·03	22,409 00	3,416 00	46,921 00
742 Underwear and Kimonas	241,619 00	79,636 00	14,112 00	65,524 00	37·20	65,466 00	58 00	176,095 00
743 Blouses, Sweaters, etc	105,157 00	37,551 00	11,366 00	26,185 00	33·15	34,728 00	**8,543 00**	78,972 00
744 Infants and Children's Wear	142,808 00	51,599 00	10,909 00	40,690 00	39·84	52,844 00	**12,154 00**	102,118 00
750 Draperies and Floor Covering	33,367 00	11,729 00	2,061 00	9,668 00	40·79	11,113 00	**1,445 00**	23,699 00
751 Linens and Staples	224,647 00	76,941 00	12,433 00	64,508 00	40·28	75,884 00	**11,376 00**	160,139 00
752 Furniture, Beds	98,998 00	31,015 00	3,025 00	27,990 00	39·41	43,279 00	**15,289 00**	71,008 00
755 Hardware	109,021 00	29,798 00	8,827 00	20,971 00	23·81	51,561 00	**30,590 00**	88,050 00
756 Electrical and Pictures	23,824 00	8,623 00	5,463 00	3,160 00	15·29	14,025 00	**10,865 00**	20,664 00
757 China	77,174 00	31,718 00	12,132 00	19,536 00	34·01	43,645 00	**24,059 00**	57,588 00
758 Travel Goods and Sporting Goods	113,775 00	41,835 00	5,968 00	35,867 00	46·03	42,824 00	**6,957 00**	77,908 00
759 Spalding, Wholesale	30,981 00	8,133 00	**355 00**	8,488 00	37·73	8,343 00	143 00	22,493 00
760 Music, Flowers, and Tea	21,297 00	4,659 00	**230 00**	4,889 00	29·79	4,148 00	741 00	16,408 00
761 Honey Dew	32,224 00	10,151 00	....	10,151 00	45·99	7,559 00	2,592 00	22,072 00
765 Radio	91,654 00	28,685 00	7,231 00	21,454 00	30·56	30,610 00	**9,156 00**	70,200 00
775 Lunch Room	15,410 00	5,304 00	**6 00**	5,310 00	52·41	6,385 00	**1,075 00**	10,130 00
776 Cake, Candy, Tobacco	40,633 00	10,683 00	648 00	10,035 00	32·79	9,672 00	363 00	30,598 00
800 Hotel Supply	73,684 00	19,138 00	5,964 00	13,174 00	21·77	19,158 00	**5,984 00**	60,510 00
Undistributed Adjustments	....	....	**1,661 00**	1,661 00	....	....	1,661 00	**1,661 00**
Total	4,909,425 00	1,750,879 00	292,963 00	1,457,916 00	42·24	1,660,501 00	202,585 00	3,451,509 00

Mr. FACTOR: Are you going through all those items?

Mr. SOMMERVILLE: No; Mr. Adamson is going to give us a summary on the operations of the Toronto store.

The WITNESS: Statement No. TT-1 shows the comparative profit and loss figures on the Toronto store operations for the ten years 1924 to 1933 inclusive. This statement has been drawn up in such a way as to show:—

(1) The departmental results before charging interest and depreciation.
(2) The departmental results after charging interest and depreciation.
(3) The operating profits, before provision for income taxes, bonuses, bond interest, etc.
(4) The profits after income taxes, bond interest, etc.
(5) The net addition to surplus after dividends, etc.

Statement TT-1 and following statements appear at the end of to-day's printed record.

As will be seen from this statement, the sales increased from approximately $22,000,000 in 1924 to approximately $31,000,000 in 1929, with a decrease to approximately $23,500,000 in 1933. Operating profits after depreciation (but before rentals to Simpson's Limited in the latter years) and before provisions for income taxes, bond interest, etc., may be compared as follows:—

Year:	Operating profit	Percentage to sales
1924	$1,393,698	6.28
1925	1,624,595	6.92
1926	1,722,800	7.17
1927	1,982,942	7.88
1928	2,134,915	7.88
1929	2,312,170	7.78
1930	2,322,534	8.23
1931	1,957,928	7.39
1932	814,489	4.56
1933	1,383,671	6.35

Mr. ILSLEY: What is that you are giving?

The WITNESS: Operating profits after depreciation but before rentals, Simpson's Limited. In order to compare the profits prior to 1929 and after 1929 you have to eliminate the rentals so as to have a comparative figure.

By Mr. Sommerville:

Q. On profits last year of $1,383.000 and rentals eliminated of $1,300,000—was that the amount of rental?—A. No. $800,000 on the Toronto store. $1,300,-000 is the total.

The figures shown above for 1932 are before writing back depreciation which was provided and later reversed. The depreciation provided in 1933 was only approximately two-thirds of the usual provision, and consideration should be given to this in comparing these results.

Departmental Results

It is the practice of the company to charge against each of the departments in each of the stores amounts representing interest on the capital employed in the departments and charges for depreciation of the fixed assets employed in the business.

Q. And the interest charged is on the basis of?—A. Six per cent.

Q. Added to laid-down cost?—A. No, it is charged as a rent charge to the departments.

Q. In addition to rent?—A. The rent which is charged includes the building maintenance and the interest and depreciation. This is not the rent to Simpson's Limited; it is the rent charged by the operating company to the department.

As stated above, capital statement TT-1 has been prepared in such a way as to show in total these departmental results after charging the overhead. Following these departmental results are shown the miscellaneous revenues and other adjustments required to arrive at the net profits or losses of the company.

The departmental results in total as shown on statement TT-1 may be summarized as follows.

Q. They run from 40 per cent to 44 per cent?

	Sales	Gross profit	Gross profit percentage to cost of sales	Total departmental profit or loss after charging overhead
1924	$22,184,397	$6,428,262	40.8	$ 717,695
1925	23,471,204	6,861,945	41.3	891,251
1926	24,021,577	7,155,168	42.4	1,101,106
1927	25,152,589	7,520,241	42.7	1,343,278
1928	27,084,993	8,352,258	44.6	1,504,429
1929	31,290,698	9,745,158	45.2	1,232,922
1930	30,917,406	9,550,243	44.7	983,549
1931	29,430,371	8,719,338	42.0	320,964
1932 (48 weeks)	22,458,679	6,616,300	41.8	420,108
1933	23,479,227	7,175,391	44.0	24,813

To that departmental profit is added in the profit and loss account the interest which is included in the rent charge to the department.

Q. That forms a head office entry?—A. Yes.

Q. In other words, the departments could all show no profit and no loss and yet the company would have a profit on its operation of 6 per cent on the total amount of money invested?—A. It is a figure arrived at on approximately 6 per cent.

Q. On the money invested in various departments from time to time?—A. Yes.

By Mr. Senn:

Q. Do you mean the operating capital?—A. No, it is the cost of the assets, of the company's assets estimated to be used in the different departments.

By Mr. Heaps:

Q. Is that 6 per cent on sales?—A. No, on the cost of the assets.

By Mr. Sommerville:

Q. And inventory also?—A. Yes.

Q. In other words, to every department's costs there is added 6 per cent which is 6 per cent on the inventory and on the proportion of fixed assets used in the department. Is there anything else?—A. No, that is all. They are fixed assets. In addition to the buildings and permanent equipment there is other equipment which is written off over a short period of time. Interest is charged on that on the depreciated value.

Q. So that the company is in this position, as I have heard a manager say, "In my department I could lose $10,000 a year and make money for the company." That is by reason of the interest charge that is made to the departments on inventory and fixed assets, is it not?—A. Yes.

Q. Whatever amount of goods are bought for that department and used in that department, 6 per cent is added?—A. No. On the inventory from time to time, not on the total purchases—it is on the inventory.

Q. I see. All right.

By Mr. Factor:

Q. That is, the capital employed in the department consists of the inventory in proportion to the fixed assets and 6 per cent is charged on that?—A. Yes.

By Mr. Senn:

Q. Will it also account for rentals as well as 6 per cent?—A. The rental which is charged includes the maintenance of buildings, the interest and depreciation, and the depreciation which is included in the rental which Simpsons Limited gets is included in that rent.

By Mr. Sommerville:

Q. Very well, go on?—A. Gross Profits, etc.

From the above table it will be seen that the percentage of gross profit to cost of sales of the Toronto store has not varied in the ten-year period more than 4·4 per cent. A steady annual increase from 40·8 per cent in 1924 to 45·2 per cent in 1929 is shown and in the following three years the percentage dropped to 44·7 per cent, 42 per cent and 41·8 per cent respectively. A considerable improvement was shown in 1933 when the percentage to cost of sales was 44 per cent.

Q. That is a very even course which has been running for ten years?—A. Yes, ten years.

These gross profits results are after charging into cost of sales, a percentage on cost for buying expenses (usually 1 per cent) and in some of the clothing departments a percentage is added to cost to cover alteration expenses.

If these items were eliminated the gross profit percentage would be increased.

Q. These buying expenses of 1 per cent are charged to the department on all?—A. That is, the majority of the departments bear 1 per cent; some of them are higher.

On statement TT-2 is shown a ten-year comparative statement of sales by departments which also shows as a percentage of sales, the initial mark-up and the maintained gross profit of each department and for the Toronto store as a whole. This statement was prepared from the records of the company on which percentages are always shown as percentages on sales, rather than as percentages on cost and they are so shown for this reason.

Q. Have you got the percentages on cost?—A. Not by departments.

Q. But you will have them later?—A. On the specific departments which we have inquired into, yes. Statement TT-2 is of the departments of the store for ten years.

An examination of the percentages of the gross profits to sales shown on this statement for the store as a whole indicates the same trend referred to above.

The following is a summary of the initial mark-up percentage (to sales) for the store as a whole:—

	Percentage
1924	33·9
1925	34·36
1926	34·84
1927	34·89
1928	35·44
1929	35·7
1930	35·39
1931	34·77
1932	34·92
1933	35·3

By Mr. Senn:

Q. Is it customary to estimate the mark-up on sale price rather than on cost price?—A. Yes.

By Mr. Sommerville:

Q. In departmental store business it is usually computed?—A. Yes.

Q. Will you give us the mark-up as expressed in terms of cost?—A. The following is the same initial mark-up expressed as a percentage of cost of sales:—

	Percentage
1924	51.3
1925	52.3
1926	53.5
1927	53.6
1928	54.9
1929	55.5
1930	54.8
1931	53.3
1932	53.7
1933	54.6

The individual departments do not all show the same trends—some of them show increasing mark-ups and maintained gross profits percentages over the ten-year period. On the other hand, some of them show the reverse.

By Mr. Ilsley:

Q. What do you mean by trend? There does not seem to be any trend?—A. I say that individual departments do not show the same trend. There is a trend from 1924 to 1928 from 51 per cent to 55 per cent. Then it varies in the next five years.

INVENTORY RESERVES

The company maintains an inventory reserve which, however, is not set up on its books as such—effect being given to this reserve by adjusting the values of its inventories at the year-end. This inventory reserve is not set up or adjusted by the departmental managers, any adjustment made being after the departmental results are obtained. In each of the years 1926, 1927 and 1928 the inventory reserve was increased by $100,000 and in 1930, 1931 and 1932, $104,052, $160,000 and $40,000 of this reserve was used to increase the profits. These adjustments are shown on statement TT-1. The total of the inventory reserves for all branches of the business at 3rd January, 1934, was $502,140 of which $400,000 applies against the Toronto store inventory. The gross profit percentages referred to previously are before any of these inventory reserve adjustments.

By Mr. Sommerville:

Q. And the inventory reserve, that is so much velvet to fall back upon?—A. They are to reduce inventories to their cost.

Q. If needed?—A. Yes, if needed.

Q. They are a very legitimate cushion?—A. Yes.

Q. This is an additional over-all inventory reserve?—A. Yes. The adjustments of the inventory reserve are shown separately on the statement because adjustments are not made in the departmental results, and in order to tie up to the departmental profits the inventory adjustments were shown separately on this statement.

EXPENSES

On statement TT-3 is shown a summary of the expenses charged to the departments in total in each of the ten years 1924 to 1933. The amounts included in the various expense items for interest and depreciation have been eliminated in total and shown separately on this statement, the totals of which are carried forward to statement TT-1. All of the expense items show a substantial increase in 1928 and 1929 because of the increased additions made at that time to the Toronto store which resulted in increased operating expenses. Since 1930 the expenses, exclusive of interest and depreciation, decreased from

$6,707,495 to $5,547,166, or by 17 per cent, largely accomplished by wage reductions. The charges made to the departments for rent have increased in the past few years because of the additions made to buildings and equipment.

Q. Wage reductions accounted for—largely accounted for a 17 per cent reduction in operating expenses?—A. Yes.

Q. Now, that was in 1930?—A. Yes.

Q. That is $1,200,000 was the reduction. You say " largely accomplished by wage reductions." Can you tell me to what extent wage reductions contributed? —A. That is referred to in our report upon the wages.

Q. It is dealt with?—A. Yes.

Mr. ILSLEY: This is a good place to tell us now.

By the Chairman:

Q. It was over a million dollars, was it?—A. That was the total reduction in the expenses.

By Mr. Sommerville:

Q. The total reduction in expenses due to wage reductions?—A. I do not know the exact amount. The reduction betweeen 1930 and 1933 in the total wages paid by the Toronto units excluding management was approximately $1,400.000.

Q. There was a slight reduction. There was about a 10 per cent reduction in personnel in the Toronto office?—A. That is total cost of wages.

The CHAIRMAN: In any case, there was a substantial reduction in wages in 1930?

The WITNESS: That includes the Toronto mail order.

By Mr. Sommerville:

Q. And there was in the prior year, 1929, a very substantial increase in the fixed charges in the matter of a large rental that had to be paid to the holding company?—A. This is exclusive of the interest and depreciation. This is only the departmental expense; it does not include the rentals to Simpsons Limited.

Q. I quite appreciate that; but coincident with or following upon the establishment of this large rental to the holding company came the reduction in wages to the departmental employees?—A. Yes.

Mr. HEAPS: What was that reduction in percentages?

Mr. SOMMERVILLE: When we come to the wage scale we will get it more fully.

The CHAIRMAN: It says here a reduction of about 17 per cent largely accounted for by wages, but not wholly. and the exact amount would be dealt with when we come to the wage schedule.

Mr. ILSLEY: Would it give a picture of the wage reductions if you could give the percentage of reduction and the number of those employed and also give with that the percentage and the total amount paid?

The CHAIRMAN: I think perhaps, gentlemen, it would be better to leave that until we get to the wage situation. We are going into the wage situation quite fully, so we will cover it all at that point; I think that would be better.

By Mr. Sommerville:

Q. All right, Mr. Adamson?—A. The net departmental result: The results of the departmental operations over the ten years are shown in the table set out in the earlier part of this memorandum. This statement shows that, after charging interest and depreciation the departments as a whole made profits in each of

the years excepting in 1932, when a loss of $420,108 was shown. The profits in 1933 were $24,813 as compared with a high in 1928 of $1,504,429.

Profit and Loss Account 1933: Statement No. TT-4 shows the net results for 1933 of the Toronto store operations. On Statement No. TT-5 the details of the departmental operations are shown, the totals of which are carried forward to Statement No. TT-4. Statement TT-6 shows the details of the direct and indirect expenses shown in total on Statement TT-5 (1933 only). This is dealing with 1933 in detail.

Q. That is departmental accounts, and the departmental statement of profit and loss?—A. The total departmental profits shown on TT-5 are carried forward to Statement No. 4, and then are shown other adjustments in the profit and loss account, in order to arrive at the net profit or loss for the year.

Q. Yes?—A. And Statement TT-6 shows the details of the expenses which are shown *in toto* in Statement TT-5.

Q. Yes, and that covers wages, buying expenses, advertising, and all the other items of direct expense?—A. Yes.

Q. It also covers indirect expense?

Mr. Factor: In the printed copy we have no TT-3 or TT-6?—A. They are large statements and were not printed.

The expenses shown on this statement are not grouped in the same manner as on the company's departmental statements, although the net results do not differ. The following changes have been made:—

(*a*) The amount of buying expenses charged into the cost of sales has been eliminated and shown instead as an expense item. For this reason the gross profit percentage of each department is higher than shown on the company's statements and on the comparative ten-year statement (No. TT-1).

(*b*) The charges made to the departments for interest and depreciation have been eliminated from the expenses and shown as separate items.

Interest

The interest eliminated and shown separately consists of:—

(1) The interest on inventories which was eliminated from "Miscellaneous Direct Expenses."

By Mr. Sommerville:

Q. In the matter of expenses charged, all departments and services are maintained as separate units?—A. Yes.

Q. And each service department is expected to show a profit operated as such, to cover its expenses and show a profit, is it not?—A. Yes, the cost of the various services is charged; at the beginning of the season the estimated cost of maintaining this service is arrived at, and that is spread over the expenses of the various departments on the basis of budgeted sales.

Q. Yes, and to these service departments there is added a proportion of rent, depreciation and interest?—A. The rent includes the interest.

Q. Interest, depreciation and other similar items?—A. Yes.

Q. Take, for instance, a service department, such as window display, that department is charged a rental for the window while it is used?—A. By the department.

Q. And then, the window trimming department charges for setting up the exhibit.

By Mr. Factor:

Q. That is not included in the 6 per cent?—A. No, the various services are charged separately.

By Mr. Sommerville:

Q. I am using that to illustrate one kind of service that is charged to the department as part of the departmental cost?—A. Yes. Window display is all included in the advertising; the proportion of advertising represented in window rental is included in the advertising expense.

Q. And then a certain proportion of advertising is charged to the department?—A. The actual advertising of the department.

Q. And a certain proportion of the repair department is charged?—A. That is included in the rent as building maintenance.

Q. Included in the rent?—A. Yes.

Q. Is a certain amount of depreciation on their fixtures charged to the department?—A. That is included in their rent, or prepaid expenses.

Q. I am not talking of rental of space, I am talking now of equipment?—A. Yes, equipment used.

Q. Yes, is that not charged in each department?—A. Yes.

Q. All of these are separate departments, and they are all expected in turn to show a profit?—A. In the case of equipment the actual equipment in the department is written off over a period of time against the department.

Q. Against the department, yes?—A. To proceed:—

(2) Interest charged to the departments as rent, as window rental (under advertising and display) and the interest charged to the service departments and included on the company's statements under "Services" and "Administrative."

(3) Interest charged to the departments under "Prepaid Expenses" for special equipment, alterations, etc., used by the departments.

Where details were available the actual interest included in the expenses charged to the departments was eliminated—in other cases a pro-rata basis as between interest and the other expenses included in the rent and other charges made to the departments was used for the purpose of elimination.

DEPRECIATION

(*a*) *On special equipment, alterations, etc.*

The total of the amount eliminated for depreciation on special equipment, alterations, etc., represents the balance of what is known as a "prepaid expense" account after eliminating interest on a *pro rata* basis as set out above.

(*b*) *On building and equipment—*

This represents the depreciation charged to the departments under the company's headings of advertising (window rent), overhead charges (rent charges for service departments), and rent account proper. These amounts have been eliminated from the departmental expenses on a *pro rata* basis in the same manner as interest.

The charges made to the departments in 1933 for interest and depreciation in total were on the same basis as in previous years, but actually the interest charge was increased and the depreciation charge decreased. This was occasioned by the decision of the company to take depreciation of only two-thirds of the usual rates. In order to show the departmental results on a comparable basis with previous years, however, the interest charge was increased.

Statement No. TT-5 shows that of the 88 departments in the Toronto store 52 showed profits and 36 showed losses.

SPECIFIC DEPARTMENTS INQUIRED INTO

Inquiry was made into the operations of certain of the Toronto store departments in order to ascertain the mark-ups obtained on diffrent classes of merchandise, the names of the principal suppliers of the merchandise sold to these

departments and the quantities of merchandise supplied by these firms—in order to show the trend of the operations of these departments over a period of years.

Various statements have been prepared on each of these departments, showing examples of price spreads and the operating results of each of the departments over a period.

The mark-ups indicated on the price spread statements represent the differences between the initial selling prices indicated on the invoices and the laid-down cost. The initial selling prices are not necessarily the selling prices, as in many cases the initial selling prices have to be reduced. The mark-up percentage on cost shown for the various items listed on the price spreads schedules may not, therefore, necessarily be the actual mark-up obtained. The actual maintained gross profits percentages of the departments may be obtained by a reference to the comparative departmental statements, on which are also shown the amounts of the stock write-downs, stock shortages and employees' discounts, which are deducted before arriving at the actual gross profits of the departments.

These comparative departmental operating statements also show the total expenses charged against the departments, including the interest and depreciation charges referred to previously.

By Mr. Sommerville:

Q. If stock is marked up at a certain figure and is sold at less than that figure there is what is called a mark-down allowance in that department?—A. Yes

Q. On a particular item?—A. Yes.

By the Chairman:

Q. All these variations then are reflected in your figure, the maintained mark-up?—A. Yes, that is, after eliminating all the stock write-downs and inventory variations.

ADVERTISING

On Statement No. TT-8 is shown the comparative newspaper expenses by newspapers of the Toronto store for the eleven years, 1923 to 1933 inclusive. This shows an increase from $412,000 in 1923 to $750,000 in 1933.

By Mr. Sommerville:

Q. $750,000 was the total newspaper advertising in 1933?—A. Yes. On the same statement is shown the lineages in one Toronto evening paper in each of the years 1927 to 1933 and the lineages in one Toronto morning paper in each of the years 1929 to 1933. The lineages of each of the two evening newspapers are approximately the same and this is also the case for the two morning newspapers. The lineage rates for each of the four Toronto newspapers over a period of years is also shown on this statement.

MR. SOMMERVILLE: In the printing of this statement of comparative advertising lineages you might note that there has been a mistake in the printing. They have put the dollar sign for lineage and I know that the *Evening Telegram* would have a faint if they found that they were reported as having received $2,500,000. They mean 2,500,000 lines. The dollar sign should not be there.

The WITNESS: *Advertising Allowances.*

Statement TT-9 shows the advertising allowances received from suppliers of the Toronto store, for the year 1933 and for the first two months of 1934. These advertising allowances are classified according to the departments receiving the benefit of the allowances. The amounts received from the various suppliers vary greatly. The total number of suppliers contributing advertising

allowances is approximately 150 and the total amount received in 1933 amounted to $37,521.90. In the first two months of 1933 advertising allowances totalled $8,485.52. These advertising allowances are credited against the cost of the—

By Mr. Sommerville:

Q. These advertising allowances are amounts that are given by various firms?—A. Yes.

Q. And you have given us a list of them?—A. Yes.

The CHAIRMAN: A large list.

Mr. SOMMERVILLE: It is a large list, yes.

The WITNESS: That was not printed, 6 pages.

By Mr. Sommerville:

Q. And are these advertising allowances actually based upon an audited return on the number of lines that are occupied, or are they just arbitrary figures?—A. They are amounts arrived at at the time of the purchase of the goods.

Q. As part of the bargain?—A. The vendor agrees to supply so much for advertising.

Q. It is pretty arbitrary?—A. Yes.

Q. You, of course, appreciate that advertising allowances where the advertiser does send in an audited statement showing the lines that have been used and the rate at which they have been used and return to the company is one thing, but where you have an arbitrary figure fixed at the time of purchase that is quite a distinct thing?—A. Yes.

Q. And you say that in this case?—A. There are various arrangements for advertising.

Q. Made at the time of the purchase?—A. Yes.

Q. Then may I ask are they reckoned on the basis of some rate that is paid by the advertiser to the Simpson Company which is a local rate and, therefore, I understand a lower rate, or are they based upon the national rate which is a larger rate?—A. It is usually just a round amount which they say they will contribute for advertising. There are various arrangements.

DEMONSTRATORS

There are some sales clerks in the Toronto store known as "demonstrators" whose wages, or part of them, are paid by the manufacturers of the product which they sell. These "demonstrators" are of two kinds:—

(1) Those whose wages are paid by the Robert Simpson Company, Limited, and charged by that company, either in whole or in part, to the outside firms.

(2) Those whose wages are paid directly by the outside firms.

On Statement No. TT-10 is shown the amounts so charged to these outside firms during the year ended January 3, 1934, which totalled $23,961.26. Of this amount $17,734.39 is in respect of "demonstrators" located in the Toilet Goods department, and primarily because of this, selling wages in that department were only 4·2 per cent of total sales, in contrast to 7·4 per cent for the store as a whole.

Q. Wait a minute till we get this: These demonstrators in the Toilet Goods department, their wages were paid by a number of firms here?—A. There are two kinds, one group whose wages are paid by the Robert Simpson Company, Limited, and charged to the outside firms; and the second class representing demonstrators who are paid directly by the outside firms.

Mr. FACTOR: To advertise a certain brand.

By Mr. Sommerville:

Q. Those demonstrators also sell other goods of the firm?—A. I understand they do.

Q. And that is one means of having the wages of the department taken care of.

By Mr. Factor:

Q. You say that the demonstrators that are paid by the outside firms also sell the firm's goods?—A. Their selling is confined largely to the goods of the firm whom they are representing, but I cannot say whether they actually do sell the goods or not.

The CHAIRMAN: Well, it is not very important; they are paid anyway; there is an allowance made for them.

By Mr. Sommerville:

Q. At any rate, the result of this operation is to cut the selling expenses of that department.

Q. From 7·4 per cent to 4·2 per cent?—A. 7·4 per cent is the average for the store as a whole and the actual of this Toilet Goods department in 1933 was 4·2 per cent.

By the Chairman:

Q. Which about indicates that a very substantial service is rendered by those demonstrators?—A. Yes.

Q. To the department?—A. Yes.

Mr. FACTOR: I suppose a substantial service is rendered by the demonstrators to the outside firms too.

The CHAIRMAN: Oh, yes, it is a very old practice.

The WITNESS: Complete information in respect of "demonstrators" paid directly by outside firms is lacking. At 8th January, 1930, there were 84 names of such on the payroll, and at 10th January, 1934, there were 117. Officials of the company state that not all of these necessarily worked during these weeks, as a name may be left on the payroll for a time after the employee has left. Some of these demonstrators are only in the store for a few days. Officials state that of the demonstrators at 10th January, 1934, 55 have since left the services of the company and there is no record as to the name of the manufacturers whose goods they were selling. The names of the other manufacturers are shown on statement TT-11 attached. As will be seen from this statement the departments which use these demonstrators most are:—

DEPARTMENT 204—TOILET GOODS

This department also has several demonstrators who are paid by Simpsons but whose wages are charged back to manufacturers (See statement TT-10.)

DEPARTMENT 430—STOVES, ETC.

The Easy Washing Machine Company and the Kelvinator Company of Canada, Limited, both employ six in this department.

LOWER PRICED STORE

Most of the demonstrators in this department are transients and twenty-six of those on the payroll at 10th January, 1934, are no longer employed. The store superintendent states that the merchandise which many of these demonstrators sell is only purchased by the Robert Simpson Company, Limited, when and as it is sold to customers.

By Mr. Sommerville:

Q. Consignment really?—A. The goods are sold by the demonstrators in the Lower Priced Store.

By Mr. Factor:

Q. The total paid to these outside clerks for the year ending 3rd January, 1934, was $22,000?—A. That is the amount paid by Simpsons.

By Mr. Sommerville:

Q. And they largely exceed those who are paid by the Robert Simpson Company in numbers?—A. Yes, but they vary from time to time. They may stay for a short time and go again.

By the Chairman:

Q. They are not steady?—A. No.

The CHAIRMAN: Then we turn to consignment purchases.

The WITNESS: Yes.

CONSIGNMENT PURCHASES

The company records consignment goods in the same manner as ordinary purchases excepting that separate accounts payable records are kept with suppliers for consignment merchandise. Officials of the company prepared a statement of consignment purchases in 1933, a summary of which is shown on statement No. TT-12. The statement was checked to the records of the company.

The largest number of consignment purchases occur in the Ladies' Dresses and Coats Departments. In other departments the volume is almost negligible. A summary of the consignment transactions in 1933, which involve approximately 150 vendors, is as follows:—

Consignment goods on hand at 4th January, 1933..	$ 32,188
Purchases in 1933 (of which $157,000 represents purchases in the Ladies' Dresses and Coats Departments)..	174,573
	$ 206,761
Payments to vendors in 1933..	147,090
	$ 59,671
Amounts charged back to vendors either for merchandise returned or for reductions in prices..	43,029
Consignment goods on hand at 4th January, 1934..	$ 16,642

By Mr. Sommerville:

Q. These goods are sent in——A. They are sent in on consignment.

Q. Yes, and the firms have no liability in respect of them?—A. No.

Q. And if they are sold then they are paid for?—A. Yes.

Q. And if they are not sold they are returned?—A. Yes.

Q. And if there are reductions in the prices of these goods what happens then?—A. Well, in some cases, at least, the vendor is charged with a proportion of the reduction in the selling price.

Q. The amount charged back here it seems is for merchandise returned or for reductions in price, $43,000; you have not got that here?—A. It is shown in the next statement for the larger consignment purchases.

Q. Oh, yes, price reductions $8,022?—A. A total charged back of $28,000 on 19 consignment accounts, $8,000 represented price reductions.

Q. Now, on these price reductions we have had complaints that while there are price reductions the firm never takes any portion of that price reduction, it always maintains its mark-up, and the price reduction has to be entirely taken by the manufacturer sending in the goods on consignment. Can you speak as to that?—A. The records of the company show that the amount charged back to the vendor is in proportion to the reduction in selling price.

Q. Their mark-up then is maintained?—A. No.

Q. At the reduced price, is it not?—A. They reduce their selling price and charge a proportion of that to the vendor.

By Mr. Factor:

Q. The vendor does not absorb the entire reduction?—A. Oh, no.

Q. What percentage?—A. Well, in some cases, at least, from the records which we examined the amount charged back to the vendor was the same proportion to the cost as the reduction was to the initial selling price; that is, if the goods were marked at $1 and were reduced to 75 cents, not all of the 25 cents is charged back to the vendor, only a proportion of that.

By Mr. Sommerville:

Q. The statement sent in to us indicated that the whole amount was charged back to the vendor and the mark-up was maintained on the goods on the reduced price?—A. There are no records to show whether that is so or not.

By the Chairman:

Q. Would you say that substantially any reductions were charged back to the vendor of the goods?—A. Yes.

Q. Would you say that substantial net reductions were charged back to the vendor of the goods?—A. Yes.

Q. Substantially?—A. Where reductions were made in the selling price, a portion of them were charged to the vendor, not the total.

By Mr. Sommerville:

Q. A substantial portion would be charged, anyway. You see, if they owned the goods themselves, and paid for them and sold them at a reduced price, they would take the entire reduction themselves?—A. Yes.

Q. But in the matter of this consignment goods, is it not a fact that practically all, if not all, of the reduction is charged back to the manufacturer?—A. No; the portion represented by the ratio of the cost to the initial selling price.

Mr. Nash: I think it might be explained in a very short table, if I might interrupt. If they purchased goods for a dollar, and mark them up $1.50, got goods on consignment, valued at a dollar, and mark them up to $1.50, and later those goods were reduced to 50 cents, they would mark them up to 75 cents and each would take one-half of the reduction.

Mr. Sommerville: Proportionate.

Mr. Nash: It is proportionate. They share the reduction.

Mr. Factor: That is rather a new system of merchandising.

It is reasonable to ship goods on consignment at a fixed price; I mean, I always understood the term "goods on consignment" meant, here are the goods, sell them at a price, and then pay me under certain terms.

Mr. Sommerville: On commission?

Mr. Factor: On commission.

The Chairman: There is usually a price intimated when goods are consigned?

Mr. Ilsley: They keep the same proportion of mark-up and reduction.

Mr. Nash: Their mark-up is maintained.

Mr. Sommerville: That is what I thought.

Mr. Young: The percentage.

Mr. Nash: They share the reduction with the vendor.

The CHAIRMAN: All right.

The WITNESS: Consignment purchases represent slightly more than 1 per cent of the total purchases of the store and slightly more than 4 per cent of the total purchases of those departments in which any consignment purchases were made.

An examination of a large number of the invoices shown in the company's records as representing 1933 consignment purchases was made. Very few of these invoices are marked "consignments." Most of them have a mark thereon, the usual terms of credit. An examination was also made of many of the debit notes by which amounts are charged back to the vendors either for merchandise sent back or for price reductions.

By Mr. Sommerville:

Q. Did you find this condition existing: That goods had been purchased on an invoice just as you indicate here, in the ordinary way, and that when they did not sell well, they had been returned to the manufacturer, and those that had been sold were treated as having been sold on consignment?—A. No.

Q. You did not find that condition?—A. No. Consignment accounts of the nineteen largest vendors were analyzed in detail and are summarized on statement No. TT-13. The volume of consignment transactions with these nineteen firms represents 60 per cent of the consignment business in 1933. An analysis is given on the statement of the amounts charged back to these vendors. i.e., as between goods returned and charge-backs for price reductions. This shows that of $28,481.84 charged back to the nineteen vendors whose accounts were examined, $20,459.82 represented returned merchandise and the balance, $8,022.02, represented price reductions.

Mr. FACTOR: Can you tell me what percentage of the returned merchandise was of the total merchandise purchased in the analysis?

The WITNESS: To the total merchandise?

Mr. SOMMERVILLE: The 19 accounts.

The WITNESS: Of those 19 accounts, yes.

The CHAIRMAN: The consigned goods.

Mr. SOMMERVILLE: It represents $99,464, and the goods returned amounted to $20,459.

The CHAIRMAN: About 20 per cent.

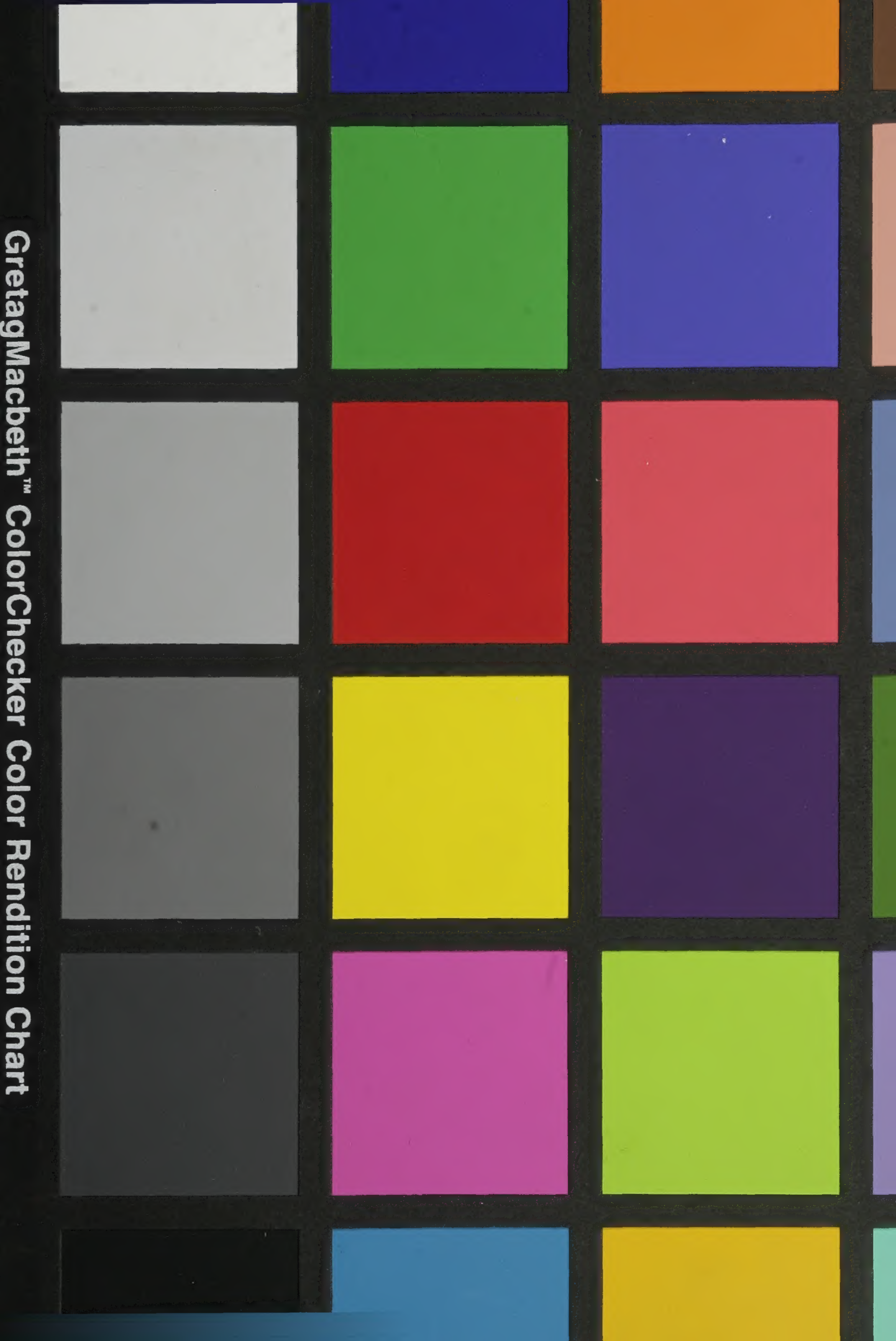
The WITNESS: 20 per cent.

Mr. SOMMERVILLE: $8,000 represents the amount charged back as reductions, so that about $28,000 of the $90,000 would mean more than 25 per cent was affected in this way.

The WITNESS: The debit notes respecting price reductions give little information, the usual explanation being "allowance as arranged with " —the person with whom we are dealing. The debit notes indicate the selling price as well as the cost price, and in many cases the amount charged back to the vendor was in the same ratio to the original cost as the reduction in selling price to the indicated original selling price. That is what we have gone over.

The CHAIRMAN: It is six o'clock, and I think we will call it a day. The committee stands adjourned until to-morrow at 11 o'clock.

The committee adjourned at six o'clock, to meet on Thursday, June 7, at 11 o'clock.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